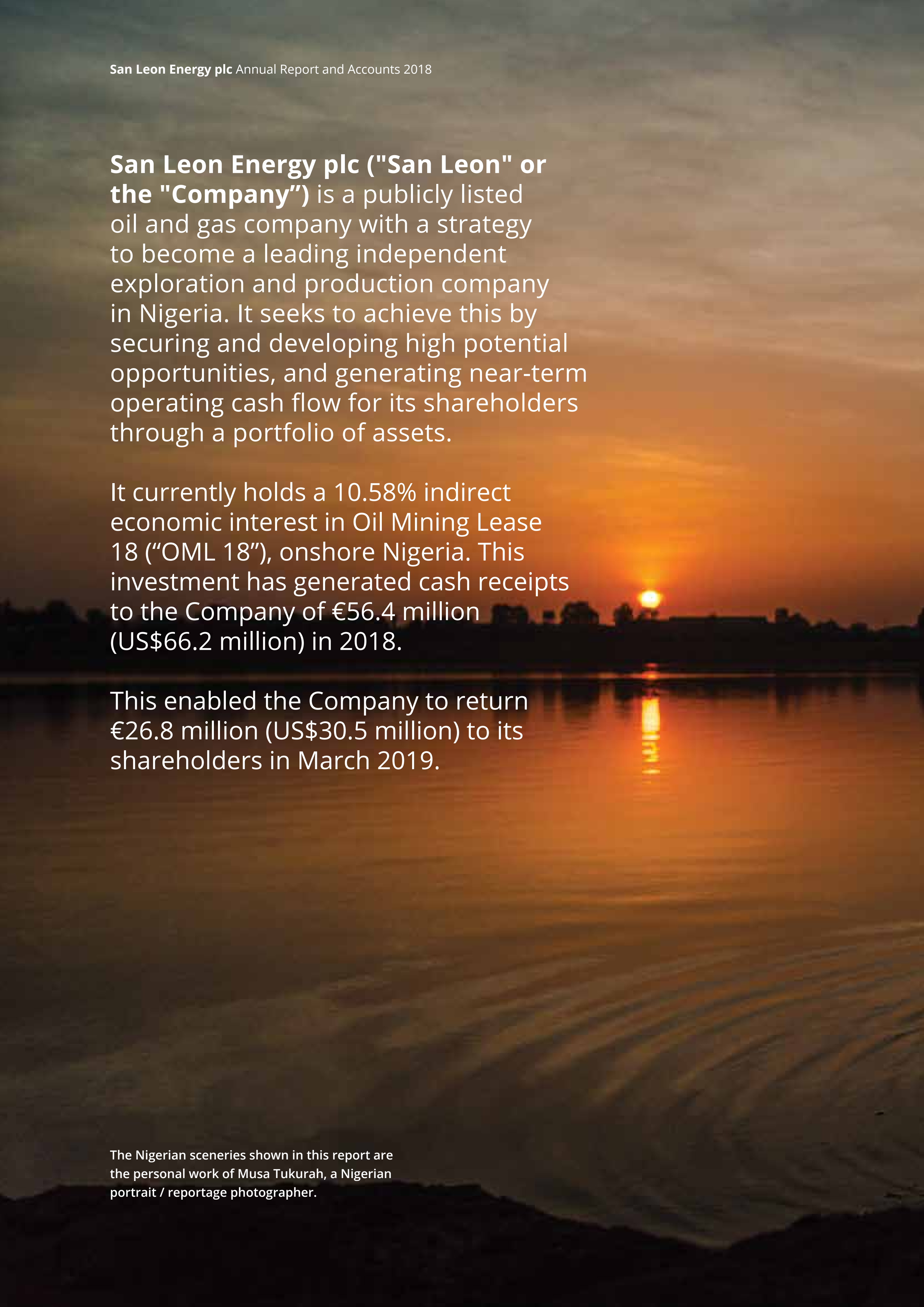
San Leon Energy plc
Annual Report and Accounts
2018



San Leon Energy plc ("San Leon" or the "Company") is a publicly listed oil and gas company with a strategy to become a leading independent exploration and production company in Nigeria. It seeks to achieve this by securing and developing high potential opportunities, and generating near-term operating cash flow for its shareholders through a portfolio of assets.

It currently holds a 10.58% indirect economic interest in Oil Mining Lease 18 ("OML 18"), onshore Nigeria. This investment has generated cash receipts to the Company of €56.4 million (US$66.2 million) in 2018.

This enabled the Company to return €26.8 million (US$30.5 million) to its shareholders in March 2019.

The Nigerian sceneries shown in this report are the personal work of Musa Tukurah, a Nigerian portrait / reportage photographer.

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CORPORATE

- Tender offer completed in early 2019, repurchasing €26.8 million (US$30.5 million) of Company shares, delivering on San Leon's shareholder return commitment.
- Appointed Linda Beal and Bill Higgs as non-executive directors, bolstering financial and operational oversight respectively.

OPERATIONAL

- December start-up of OML 18’s **new well drilling** activity.
- Significant progress on planning new oil export pipeline and offshore storage facility, targeting reduced export downtime and losses.

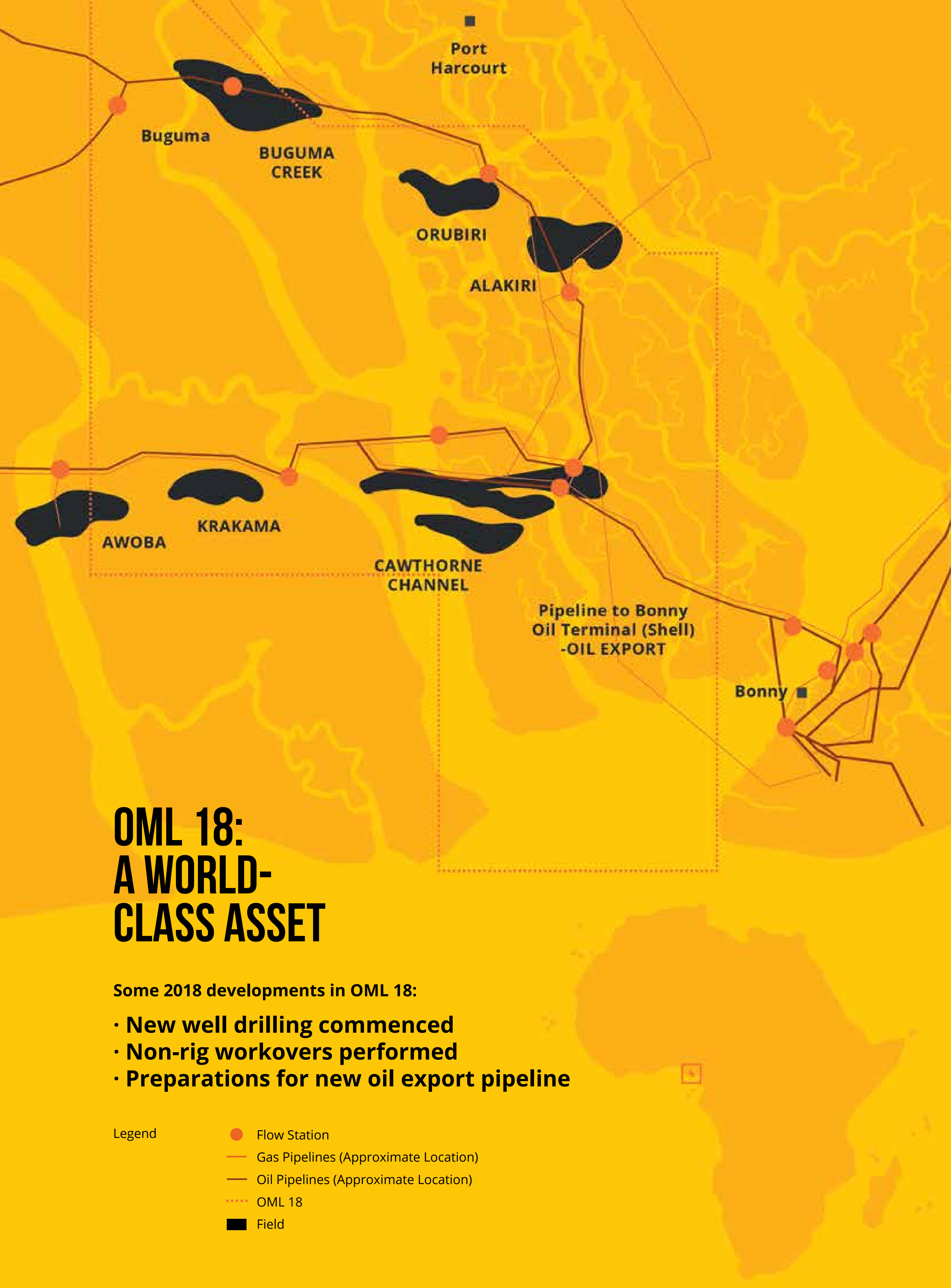
FINANCIAL

- **€56.4 million (US$66.2 million) received in cash from OML 18 investment in 2018,** transforming San Leon's financial position and outlook.

- Post year end, the Company reported the restructuring of the Reserves Based Lending (“RBL”) facility held by Eroton Exploration and Production Limited (“Eroton”) which frees up near-term cash resources for operations.

1,035 KM^2

OML 18 IS LARGER THAN THE COUNTRY OF BAHRAIN



OML 18: A WORLD-CLASS ASSET

Some 2018 developments in OML 18:

- **New well drilling commenced**
- **Non-rig workovers performed**
- **Preparations for new oil export pipeline**

Legend

- Flow Station
- Gas Pipelines (Approximate Location)
- Oil Pipelines (Approximate Location)
- OML 18
- Field

MATERIAL RESERVES IN NIGERIA

The 2016 Competent Person Report ("CPR") by Petrovision illustrated the scale of the reserves applicable to OML 18 partners. A summary is provided in the table below. An updated CPR is being prepared by Petrovision.

Considerable contingent resources and exploration potential also exist. Further details regarding San Leon's investment in OML 18 can be found in Note 17 of the Financial Statements and in the 2016 AIM admission document in the investors section of the Company's website.

OML 18	GROSS TECHNICAL RESERVES BEFORE ECONOMIC CUT-OFF		
	1P	2P	3P
Oil + Condensate (mmstb^)	389	576	777
Gas (bscf*)	3119	3213	5080

^ million stock tank barrels of oil.
* billion standard cubic feet of gas.

OTHER ASSETS

Nigeria is now San Leon's core area. With the exception of the Barryroe Net Profit Interest ("NPI"), the Company is seeking to monetise or exit all other assets.

Ireland (Offshore) – Barryroe

San Leon holds a 4.5% NPI on the Barryroe oil field which is located in Standard Exploration Licence 1 / 11 in the North Celtic Sea, offshore Ireland. The field has had six hydrocarbon bearing wells successfully drilled on structure. On 28 March 2018 Providence Resources announced that, along with its partner, it had agreed to farm-out a 50% working interest in the Licence to a Chinese consortium led by APEC Energy Enterprises Limited ("APEC"). On 20 September 2018, Providence Resources further announced the signing of the binding farm-out with APEC which included a carry for four vertical wells and one horizontal sidetrack, plus the optional drilling of two additional horizontal wells, together with cash advances for agreed project and operational costs. Further information is available in Providence's press releases on those dates.

These announcements by Providence provide increased confidence in the project and previous uncertainty has now significantly decreased. We note the announcements by Providence in June 2019 and we do not believe the short delay in payment receipt indicates a significant increase in risk. The directors have reviewed recently published information regarding timing, oil price, costs and risk, and consider them reasonable and appropriate and have decided to maintain the carrying value of the Barryroe 4.5% NPI.

Albania

San Leon holds a 100% participating interest in the Durresi Block, offshore Albania. The licence area contains the A4-1X gas / condensate / light oil discovery, along trend from several existing analogous discoveries / developments in Italian waters, as well as several undrilled oil and gas prospects. The Company is negotiating to enter the appraisal stage, with a view to farming out the asset, and this year has impaired the asset to nil value to reflect the time that farming out is taking.

Poland

On 19 September 2017, San Leon announced it had entered into definitive agreements, with two parties, in respect of the sale of its remaining interests in Poland, subject to certain conditions including approval by the Polish government. One agreement has now completed, resulting in the award to San Leon of two net profit interests. If the second agreement completes, San Leon will retain an additional net profit interest. Further details can be found in the press release on that date.

NovaSeis

NovaSeis was set up in 2011 to acquire, process and interpret San Leon's onshore seismic in regions such as Poland and Morocco, as well as to provide third party services. Further details may be found at www.novaseis.eu.

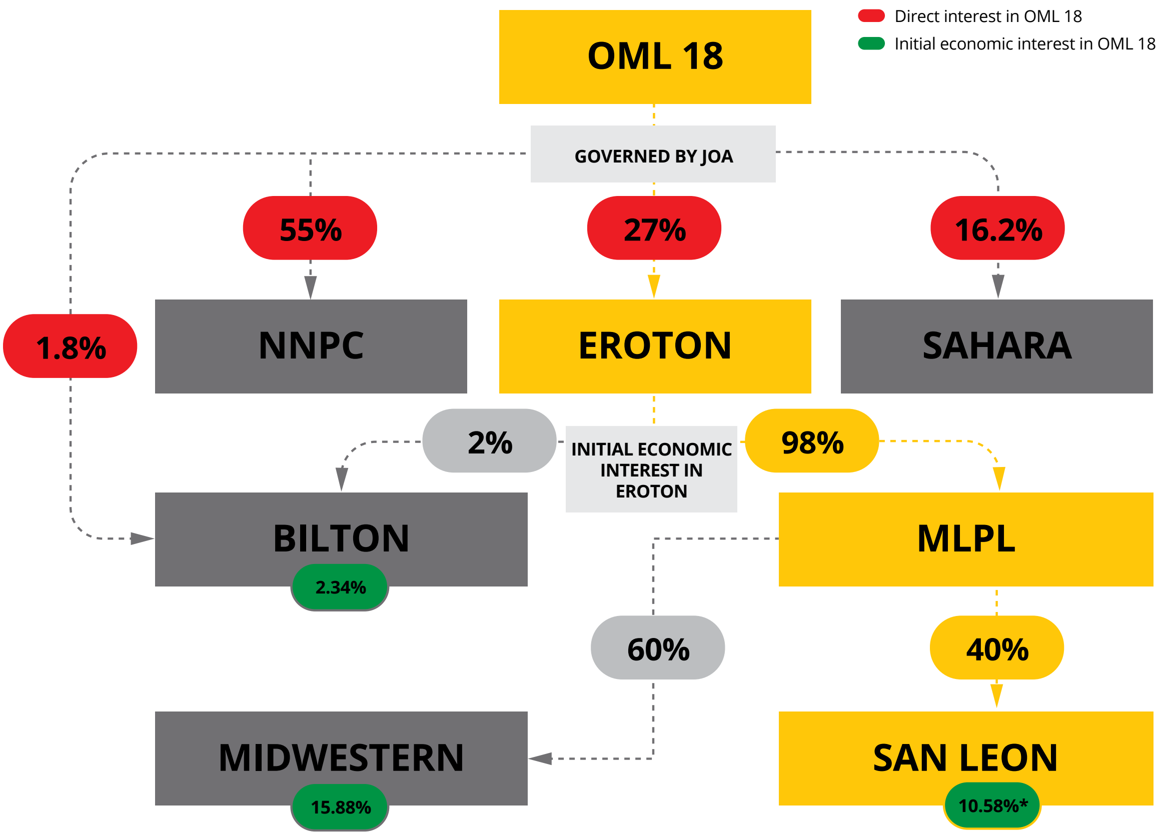
Ardilaun

As part of the consideration for the sale of Island Oil & Gas Limited to Ardilaun Energy Limited ("Ardilaun") in 2014, Ardilaun agreed to issue shares equivalent to 15% of the issued share capital of Ardilaun to San Leon Energy plc.

OUR STRATEGY

The Company's strategy is to become a leading independent exploration and production company in Nigeria. We are seeking to achieve this by securing and developing high potential opportunities, and generating near-term operating cash flow through a portfolio of sources, yielding value to shareholders.

OML 18 OWNERSHIP STRUCTURE



* After various financial and production hurdles are met, San Leon's indirect economic interest in OML 18 reduces to 5.4%.

San Leon holds an initial indirect 10.58% economic interest in OML 18

The parties in the OML 18 shareholding structure are described below.

NNPC: Nigerian National Petroleum Corporation.

Eroton Exploration and Production Company Limited: Current operator that completed purchase of 45% of OML 18 for $1.1 billion from Shell, Total and ENI in March 2015.

Sahara Field Production Limited: Nigerian privately-owned integrated oil & gas company – part of power and energy conglomerate established in 1996. Effective 16.2% stake was part of Eroton's original 45% purchase.

Bilton Energy Limited: Indigenous company whose entry costs into OML 18 were carried by certain partners.

MLPL: Midwestern Leon Petroleum Limited, a Mauritian-incorporated special purpose vehicle, holding the combined OML 18 interest of both SLE and Midwestern Oil & Gas Limited, through Martwestern Energy Limited (a Nigerian holding company 100%-owned by MLPL, not shown in structure).

Midwestern Oil and Gas Company Limited: Awarded operatorship of Umusadege Marginal Field located in OML 56 in 2003. Took production from 3,000 to ~20,000 bopd.

CHAIRMAN'S STATEMENT

The Company received €56.4 million (US$66.2 million) in cash from its OML 18 investment in 2018, which transformed its financial position and outlook.

"THE COMPANY NOW HAS A VERY CLEAR FOCUS ON ITS NIGERIAN INTERESTS."

I am pleased to report that significant progress was made to address the operational and financial challenges with the Company's involvement in OML 18, onshore Nigeria, which I described last year. The December start-up of Eroton's new well drilling activity, planning progress on the new oil export facility, the receipt of cash call arrears payments by Eroton from the Nigerian National Petroleum Corporation ("NNPC") and (announced post reporting period) the restructuring of the Reserves Based Lending ("RBL") facility held by Eroton which frees up near-term cash resources for operations, are all very welcome.

The Company now has a very clear focus on its Nigerian interests and growth strategy, the structure of which is described in the group overview section, and has continued its strategy of reducing non-core costs outside Nigeria. The completion of the transfer of various Polish assets to Gemini Resources Limited ("Gemini"), and the abandonment and land rehabilitation of four other wells in Poland after the reporting period is consistent with this strategy.

The two non-Nigerian assets which are being retained are the Durresi block offshore Albania, for which a farm out is sought, and the Net Profit Interest ("NPI") in Barryroe, the Irish asset operated by Providence Resources Inc, who recently secured a farm-out deal for appraisal / development drilling.

In November 2017 San Leon confirmed that it had received a letter from Midwestern Oil and Gas Company Limited ("Midwestern") with an indicative proposal that included San Leon acquiring Midwestern's 60% shareholding in MLPL (the "Proposal"). Through MLPL, Midwestern and San Leon are both indirect shareholders in Eroton, the operator of OML 18. Since the Proposal could have resulted in a transaction being characterised as a "reverse takeover", the Company's shares were temporarily suspended. In late April 2018, the Company announced that its Board had elected not to accept Midwestern's proposal, as it was not in the best interests of San Leon's shareholders since it did not provide a sufficient balance of added value for shareholders and certainty of near-term cash flow, and the Company's shares recommenced trading.

The Company fulfilled its pledge to begin returning value to shareholders, repurchasing €26.8 million (US$30.5 million) of its own shares through a tender offer in March 2019, after the reporting period.

The Company bolstered its board in finance and operations through the appointment in January 2018 of Linda Beal as a non-executive Director and chair of the Audit Committee, and in May 2018 of Bill Higgs as a non-executive Director and subsequently chair of the Risk and Safety Committee.

“

THE COMPANY’S FINANCIAL POSITION HAS GONE FROM STRENGTH TO STRENGTH SINCE THIS TIME LAST YEAR.”

Mutiu Sunmonu
Chairman

This year we will be welcoming Lisa Mitchell as Chief Financial Officer and Executive Director. We continue to work to increase the diversity of the board as this enhances independent thinking and healthy challenge.

Linda has extensive experience of working with African oil and gas groups, African-based advisers, and corporate and asset transactions. Bill has considerable operational experience, including in Africa, with companies ranging from a major to smaller independents. Lisa brings substantial levels of financial expertise and local Nigerian experience to the Company, as we continue to seek growth in San Leon’s value in Africa.

The Company bade grateful farewell to Director Ray King in his retirement. Ray had served since San Leon’s inception. This year we will also see the departure of Ewen Ainsworth, who has decided to move on after two-and-a-half years of service as our Finance Director. On behalf of the board I thank Ray and Ewen for the contribution that they have made to all our work.

The Company’s financial position has gone from strength to strength since this time last year. Income from the Loan Notes is continuing, and the start of full drilling activity on OML 18 augurs well for income under the Master Services Agreement with Eroton. Financial strength was clearly demonstrated by the Company's share repurchase. This formed the beginning of the fulfilment of the Company's capital distribution policy.

The catch-up of NNPC’s arrears, beginning of new well drilling, and restructuring of the OML 18 RBL, all move Eroton closer to being able to distribute dividends to its shareholders, of which San Leon is indirectly one. I look forward with confidence to the Company's future development and growth.

Mutiu Sunmonu
Chairman

FOUR EXPECTED CASH FLOW SOURCES

COMPANY €26.8 MILLION

(US$30.5 million) share repurchase completed in March 2019, made possible by strong cash flow

€56.4 MILLION

(US$66.2 million) received in payments in 2018

CASH GENERATION

Our current portfolio of potential sources for cash flow is:

1) Payment under the Loan Notes.

2) Dividend payments as a consequence of holding an initial indirect 10.58% economic interest in OML 18.

3) Income from the provision of rig-based drilling and workover (and associated) services, and production services, under a Master Services Agreement ("MSA") with Eroton the operator of OML 18.

4) 4.5% Barryroe Net Profit Interest (through potential income or a potential sale).

"

SIGNIFICANT PROGRESS HAS BEEN ACHIEVED IN RECENT MONTHS."

1) LOAN NOTES REPAYMENT AND INTEREST

The Company entered into a Loan Notes agreement in September 2016 with MLPL, whereby, once certain conditions have been met and using an agreed distribution mechanism, San Leon would be repaid the principal of €165.6 million (US$174.5 million) plus an annual coupon of 17% through to 2020. By 31 December 2018, San Leon had received a total of €90.7 million ($105.8 million) of Loan Notes payments, the start of such payments having been delayed due to the OML 18 operational and external issues described in the following 'Indirect Equity Interest' section. During H1 2019, a further payment of €9.4 million (US$10.7 million) was received, bringing total receipts to date to €100.1 million (US$116.5 million) and leaving €141.1 million (US$159.7 million) of principal and interest on a cash receipt basis outstanding and payable as of 24 June 2019.

Such receipts to date have been paid on behalf of MLPL due to the existence of guarantees to the Company under the Loan Notes instruments, as dividends have yet to be received by MLPL. The Company has a future receivable profile of €46.7 million (US$52.9 million) for the remainder of 2019, with further quarterly payments through 2020, and the board, having assessed the risk of non-payment, anticipates that MLPL will continue to make Loan Notes repayments, noting that San Leon has various guarantees and a share pledge in place which provide some security for payments due to the Company under the Loan Notes. €14.7 million (US$16.5 million) was due on 1 April 2019 under the terms of the Loan Notes and is outstanding as mentioned on page 39.

2) INDIRECT EQUITY INTEREST

Eroton is the Operator of OML 18 while San Leon has a defined partner role through its shareholding in MLPL. San Leon has appointed a senior operational consultant into Eroton to assist in the development of the OML 18 asset, and provides drilling and technical support to Eroton.

No dividend has been paid by Eroton in 2018 because OML 18 cash flow has not been as hoped due to a combination of operational issues and funding constraints. These operational and funding issues, and the actions being taken to address them, are summarised below.

Firstly, the majority of the 12% production downtime in 2018 was caused by problems in the third party terminal and gathering system. Underlying production from the assets was approximately 45,000 bopd during 2018 before that downtime. This issue is being addressed by the planned implementation of the new export pipeline and Floating Storage and Offloading ("FSO") project. Reducing field downtime is also expected to improve overall well performance, since when wells are shut in for field downtime it can take time to bring all wells back to normal production rates again once the field is back operating.

Secondly, substantial pipeline losses have been allocated to all operators by the Bonny Terminal operator. The 26% pipeline losses (reducing field oil sales further to approximately 30,000 bopd) have been a significant burden on net oil sales. This issue has now been partially addressed by the installation of Lease Automatic Custody Transfer ("LACT") units in late 2018 to make sure that the OML 18 partners have fiscal metering of the oil prior to export into the gathering system. In the longer term, the export pipeline and FSO system mentioned above will provide additional control.

Finally, for much of 2018 the NNPC still had significant outstanding payments due to Eroton. In December 2018 the Company announced that NNPC had paid the large majority of its arrears to Eroton, providing capital for further investment in the asset. NNPC continues to pay its current cash call obligations.

Removing the above challenges – and significant progress has been achieved in recent months – will enable greater capital allocation to production growth and support future dividends from Eroton to the Company via its initial indirect 10.58% economic interest in OML 18.

As announced in January 2019, Eroton successfully refinanced the RBL facility with the effect of significantly reducing near-term RBL repayments, as well as reducing the Debt Service Reserve Account ("DSRA") requirement to approximately US$50 million.

The future ability of MLPL to pay dividends to its shareholders (including to San Leon) will require future payments of dividends by Eroton to Martwestern and from Martwestern to MLPL, and also the settlement of MLPL's Loan Notes obligations.

3) SERVICES REVENUE

San Leon will provide certain services for heavy well workovers and new well drilling on OML 18, through a new service entity under its control. The budget for services for increasing production from OML 18 via such operations is hundreds of millions of dollars, illustrating the potential for services income under the MSA.

4) BARRYROE NET PROFIT INTEREST

The Company's 4.5% Net Profit Interest in Barryroe oil field, offshore Ireland, provides a zero cost potential future cash stream that has a carrying value of €44.7 million. Providence Resources Plc, the operator of Barryroe, has announced a confirmed farm-out to drill four wells and is at the initial stages of development. Recent announcements by Providence provides increased confidence in the project and previous uncertainty has now significantly decreased, notwithstanding the announcement in June 2019 relating to delays in funding.

THE COMPANY HAS FUTURE EXPECTED RECEIPTS FROM LOAN NOTES REPAYMENTS OF €141.1 MILLION (US$159.7 MILLION) INCLUSIVE OF INTEREST BY Q4 2020.

CEO'S STATEMENT

OML 18 IS AT AN EXCITING STAGE

OML 18 is seeing significant progress where Eroton is overcoming operational and financial hurdles as it seeks to reap rewards for shareholders, including San Leon.

"2018 WAS CHARACTERISED BY GREAT PROGRESS – BOTH OPERATIONAL AND FINANCIAL – ON OML 18."

Oisín Fanning
CEO

The issues with Nembe Creek Trunk Line ("NCTL") downtime and allocated pipeline losses, together with delayed new well drilling have meant that both gross production at the wellhead, and sales oil volumes, were significantly lower than expected. Gross oil production, taking out the effect of NCTL downtime, was 45,008 bopd. Sales oil, including the effects of downtime and allocated losses, was 30,069 bopd.

However a number of successes in the latter part of 2018 have gone a long way to position OML 18 very well. In H2 2018, Eroton installed the much anticipated Lease Automatic Custody Transfer ("LACT") units on most of its production helping to reduce allocated losses to Eroton's production using the NCTL and therefore to increase sales oil volumes.

In December 2018 Eroton reached a landmark and began drilling the first new well under its operatorship, with the target of increasing gross oil production. Later that month, the Company announced that NNPC had paid the large majority of its 2015-2016 cash call arrears, and was up-to-date with more recent cash calls.

Just after the reporting period, in January 2019, San Leon announced that Eroton had successfully restructured its Reserves Based Lending ("RBL") facility, providing a material boost to cash availability for operations, and reducing the burden of cash required in the Debt Service Reserve Account ("DSRA") – preparing the way for Eroton to distribute dividends to its shareholders (of which San Leon is an indirect shareholder) in due course.

With the increase in operational activity, debottlenecking of OML 18's finances, and export solutions in progress (LACT units installed, and the planned new export pipeline well advanced in planning), challenges are being tackled, and I look to our future with OML 18 with increased confidence.

OTHER ASSETS

In March 2018 Providence Resources Inc ("Providence"), operator of the Barryroe oil and gas discovery offshore Ireland, announced that it had agreed a farm out of part of the asset to a Chinese consortium. In September 2018 Providence announced that binding terms had been signed for this agreement, paving the way for a four-well drilling programme. San Leon welcomes this significant step forward in the appraisal and development of the asset, and considers its 4.5% NPI over the whole of the Barryroe asset to be of significant potential value. An NPI structure means that San Leon has no costs whatsoever with regard to Barryroe, but has a right to a share of cash flow from the asset once Barryroe equity holders' costs have been deducted.

The Company continues to discuss with the Albanian authorities the next phase of exploration on the offshore Durresi licence. The main target of interest on the block has an offset discovery (well A4-1X), and the recent installation by third parties of major gas pipeline infrastructure in the area provides additional options for asset monetisation.

CASH FLOW

The four anticipated sources of cash flow are described in the Cash Generation section. Of these, receipts to date – totalling €90.7 million (US$105.5 million) as of 31 December 2018 comes from repayment of Loan Notes. The balance of the principal on a cash receipt basis payable as of 24 June 2019 is €118.3 million (US$133.9 million), which continues to accrue interest at 17%. Final payment of the Loan Notes is anticipated late 2020.

The increase in operational activity is an opportunity for the Company to generate income from the provision of rig and rig-related services, and production services, from its Master Service Agreement with Eroton, and I look forward to providing an update on such income.

Cash flow from the Company's indirect shareholding in Eroton is anticipated once OML 18 is generating sufficient free cash flow (assisted by recent operational and RBL changes).

CORPORATE

The year began with the Company being in discussions with multiple parties regarding potential corporate transactions. By April, these discussions had all been terminated, and the Company's shares resumed trading after a period of necessary suspension. I am grateful to shareholders for their patience while discussions were ongoing. The last of the entities with which the Company was in discussions was Midwestern, which partners the Company in its indirect shareholding in OML 18. Ultimately the Company decided that the proposed deal was not in the best interests of San Leon's shareholders at the time as it did not provide a sufficient balance of added value for San Leon shareholders and certainty of near-term cash flow. Indeed following the receipt by San Leon of the June 2018 quarterly Loan Notes repayment, it held cash in excess of total liabilities for the first time in many years. Loan Notes receipts continue, and put the Company in a strong financial position.

April also saw the Company appoint Cantor Fitzgerald Europe as Nominated Advisor ("Nomad"), financial adviser and joint broker.

During May 2018 the first of several allegations by SunTrust Oil ("SunTrust") were made in the Nigerian press, against San Leon and other entities involved in the 2016 transactions through which the Company became an indirect shareholder in Eroton and OML 18. The Company made it clear that all such allegations were spurious and would be vigorously defended, and it maintains that position.

The appointments of Linda Beal and Bill Higgs as non-executive Directors in the first half of 2018 and Lisa Mitchell as Chief Financial Officer and Executive Director in 2019 are very welcome both from an overall Board function point of view, as well as providing valuable relevant financial and operational ideas and challenge. I would like to thank Ray King for his many years of invaluable service as a director and Company Secretary and I wish him well in his retirement. I would also like to thank Ewen for his contribution since San Leon's readmission in 2016, and wish him well in his future endeavours.

I look forward to updating shareholders with news of the planned continued operational activity on OML 18, its effect on production, and how our various expected cash flow streams are performing.

CORPORATE GOVERNANCE

SAN LEON ENERGY

San Leon Energy plc
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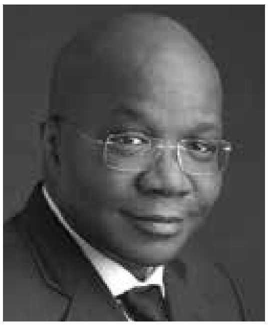
2018

BOARD OF DIRECTORS



MUTIU SUNMONU
Non-Executive Chairman

Background and experience
Mr Sunmonu has led the Company as Non-Executive Chairman since the purchase of our indirect economic interest in OML 18 in September 2016. Mr Sunmonu is a former managing director of Shell Petroleum Development Company and was country chairman of Shell companies in Nigeria from 2008 to February 2015. He led Shell's multi-billion dollar operations in Nigeria employing over 4000 direct staff with revenue contribution to the Nigerian Government of ~$70 billion dollars during 2009-2013. He has worked in the industry for over 36 years in Nigeria, the UK and the Netherlands. His strategic vision, proven track record and deep knowledge of Nigeria, brings valuable Nigerian operating experience and relationships to San Leon Energy plc.

Committee memberships
Member of Audit, Risk and Safety, Remuneration and Nomination Committees.

OISÍN FANNING
Chief Executive Officer

Background and experience
Mr Fanning has almost 30 years' experience in structured finance, stockbroking and corporate finance, with 22 years specialising in the oil and gas industry. Formerly CEO of Astley & Pearce Ltd., MMI Stockbrokers, and Smart Telecom Plc, Oisín was closely involved with the restructuring of Dana Petroleum Plc in the early 1990s. He was also a major supporter of Tullow Oil Plc in its early growth phase. Oisín is both visionary and deeply practical in pursuing business goals on behalf of stakeholders. He recognises the importance of finding and developing talented people and building relationships with local governments, partners and communities.

Committee memberships
Member of Nomination Committee.

JOEL PRICE
Chief Operating Officer

Background and experience
Mr Price is a petroleum engineer with 25 years' experience, having worked across well operations, reservoir engineering, production optimisation, asset management and business development. He was instrumental in the drilling and hydraulic fracturing of the first multi-fracked horizontal wells in Poland. Joel was previously in various technical roles with Hess in the UK and Algeria, including extensive well workover and field rehabilitation, followed by 3 years as Business Development Manager at Delta Hydrocarbons BV in The Netherlands (evaluating opportunities worldwide). He holds a BA Hons. in Natural Sciences (Geology) from Cambridge University, an MEng in Petroleum Engineering from Heriot-Watt University, and an MBA with distinction from Durham University.

Committee memberships
Member of Risk and Safety Committee.

EWEN AINSWORTH
Finance Director

Background and experience
Mr Ainsworth is an experienced Finance Director, having worked in a variety of senior and board-level finance roles in the oil and gas industry for nearly 30 years, most recently as Finance Director for Gulf Keystone Petroleum Limited. He qualified as a chartered management accountant, moving into leading commercial roles. He holds a degree in Economics and Geography from Middlesex University, and is a member of the Energy Institute.

LINDA BEAL
Non-Executive Director

Background and experience
Ms Beal was a partner at PwC for 16 years specialising in the natural resources sector and became global leader for energy and natural resources at Grant Thornton. She has extensive experience of advising groups with African assets. Ms Beal is a chartered accountant and holds a degree in Mathematics from Nottingham University.

Committee memberships
Chair of Audit Committee and Member of Remuneration Committee.

BILL HIGGS
Non-Executive Director

Background and experience
Mr Higgs has nearly 30 years of global exploration, development and operational experience, including over five years in executive roles for independent exploration and production companies including Genel Energy plc where he is currently the Chief Executive Officer. Prior to becoming CEO of Genel Energy, he held roles as Chief Operating Officer at Genel Energy and Ophir Energy plc. He was also the CEO of Mediterranean Oil and Gas where he oversaw the successful sale of the company in 2014. He previously spent 23 years at Chevron across a number of global roles including responsibility for reservoir management of the giant Tengiz oil and sour gas field in Kazakhstan. He is a qualified geologist with extensive expertise in all engineering and other technical and commercial aspects of hydrocarbon development and production.

Committee memberships
Chair of Risk and Safety Committee.

ALAN CAMPBELL
Director of Commercial & Business Development and Company Secretary

Background and experience
Mr Campbell has 17 years' experience in international business, banking and the oil & gas industry. He has project managed international merger, acquisition and divestment transactions valued at over US $350 million – including origination, negotiation, due diligence, deal structuring, closing, post deal integration and management. Mr Campbell holds a Master's Degree in Project Finance & Venture Management (First Class Honours). He has extensive commercial, evaluation, and strategic expertise, and ability to project manage and deliver objectives in often complex multi-faceted transactions.

MARK PHILLIPS
Non-Executive Director

Background and experience
Mr Phillips was a founding partner of private equity firm Penta Capital LLP and had previously been a senior investment executive with the private equity team at Royal Bank of Scotland plc. He holds an honours degree in Economics and Law from the University of Strathclyde as well as an MBA from the University of Edinburgh. He is a member of The Merchant Company of Edinburgh and brings a wealth of economic, financial investment and strategic advice to the Board.

Committee memberships
Chair of Nomination and Remuneration Committees and Member of Audit Committee.

CORPORATE GOVERNANCE STATEMENT

CORPORATE GOVERNANCE AND THE UK CORPORATE GOVERNANCE CODE

The directors of San Leon Energy plc are committed to maintaining high standards of corporate governance to ensure the Company is run effectively. We aim to conduct our business in an open, honest and ethical manner. The Board is accountable to shareholders for good corporate governance and has adopted the procedures set out below in this regard.

Changes to AIM rules on 30 March 2018 required AIM companies to apply a recognised corporate governance code by 28 September 2018. The Board adopted the principles of the Quoted Companies Alliance Corporate Governance Code ("QCA Code"). The QCA Code is based on ten principles that companies should follow to deliver growth in long-term shareholder value. The QCA has stated what it considers to be appropriate arrangements for growing companies and asks companies to provide an explanation about how they are meeting the principles through the prescribed disclosures. We have considered how we apply each principle to the extent that the Board judges these to be appropriate in view of the Company's size, strategy, resources and stage of development, and below we provide an explanation of the approach taken in relation to each. This report explains in broad terms how the Company applies the main principles of the QCA Code. We have identified one area where we are not in full compliance with the guidelines of the QCA Code and explain in detail why we have departed from the guidelines in that area (page 25).

THE BOARD

The Board is responsible for setting the overall strategy of the business, reviewing management performance and ensuring the Group has sufficient financial and human resources to meet its objectives. It directs the Group's activities in an effective manner through Board meetings and monitors performance through timely and relevant reporting procedures.

The Board plays a central role in developing and maintaining the Company's culture and values by setting the 'tone from the top', defining the behaviours expected by the Board and ensuring that ethical standards are upheld. Thus, the Board aims for the right balance between entrepreneurial leadership and the prudent and effective risk management, which are vital to maintaining a sustainable business and creating value for shareholders.

The QCA Code requires that the boards of AIM companies have an appropriate balance between executive and non-executive directors and should have at least two independent non-executive directors. In 2018 we have strengthened the Board and satisfied this requirement following the appointments of Linda Beal and Bill Higgs as independent non-executive directors.

Linda is a chartered accountant and has extensive experience of advising groups with African assets. On her appointment, she assumed the role of Chair of the Audit Committee and member of the Remuneration Committee.

Bill is a qualified geologist with extensive expertise in all engineering and other technical and commercial aspects of hydrocarbon development and production. On his appointment, he assumed the role of Chair of the Risk and Safety Committee.

On 17 January 2019 the Board appointed Alan Campbell, Director of Commercial & Business Development, as Company Secretary with immediate effect.

At the date this Annual Report is published, the Board comprises four executive directors and four independent non-executive directors.

The following paragraphs set out the Company's compliance with the ten principles of the QCA Code.

ESTABLISH A STRATEGY AND BUSINESS MODEL WHICH PROMOTE LONG-TERM VALUE FOR SHAREHOLDERS

The Board establishes the Company's strategy which is reviewed at regular Strategy meetings. The executive directors led by the Chief Executive Officer are responsible for executing the strategy once agreed by the Board. All developments in the Company's business are communicated to the shareholders via regulatory news service (RNS) announcements, Annual Report and Accounts, half yearly announcements and in investor presentations at the Company's Annual General Meetings.

The Company's overall strategic objective is to secure and develop high-potential asset opportunities in Africa and produce a near-term operating cash flow, yielding value to shareholders. The Company aims to achieve this through our technical expertise, operational capabilities and industry contacts, secured by the close links we forge with governments and the local communities in which we operate. We have built our industry reputation as a capable operator in various European and African countries and our key asset is now the indirect economic interest in OML 18 – a world class asset onshore Nigeria. The Company continues to seek to monetise or otherwise dispose of its non-core assets.

Risk assessment and evaluation is an essential part of the Company's planning and an important aspect of the Company's internal control system. The Company strives to develop strong working relationships with its partners and suppliers in its various operating locations to manage and mitigate the operational risks.

Capital distribution policy

As part of the Company's strategy to generate value for shareholders, within the Admission Document published in September 2016, the Company set out a shareholder distribution policy. The ability for the Company to make such distributions is dependent both upon the availability of cash to distribute, as well as completing a capital reorganisation in the Irish Courts. The capital reorganisation was completed in Q1 2019. As the first step in capital distribution, in March 2019 the Company announced and completed a tender to repurchase €26.8 million (US$30.5million at the time) of its own shares at a price of 46 pence per share (which was approximately 50% above the closing price before the tender announcement). The tender was modestly oversubscribed, and resulted in the repurchase of 50,475,000 shares.

SEEK TO UNDERSTAND AND MEET SHAREHOLDER NEEDS AND EXPECTATIONS

The Company's Chief Executive Officer and other executive directors are responsible for shareholder liaison. They hold regular meetings with major shareholders and analysts to discuss the Company's strategy and performance and maintain a dialogue between the Company and its investors.

Private investor events and investor roadshows are organised by the Company's brokers and public relations consultants, where the Chief Executive Officer and other executive directors meet with current (and potential future) institutional and retail shareholders and brokers to update them on the Company's progress.

The entire Board receives feedback following these meetings and any issues raised are discussed. Any significant reports from analysts are also circulated to the Board.

The non-executive Chairman and independent non-executive directors are available to meet with shareholders if required.

The Annual General Meeting (AGM) is the main forum for dialogue between the Board and the shareholders. All directors aim to attend the AGM. The non-executive Chairman, Mutiu Sunmonu, leads the AGM and takes questions from the floor. The Chairs of the Audit, Remuneration, Nomination and Risk and Safety Committees are on-hand to answer questions that may arise at the meeting.

All directors receive regular industry and peer updates, to enable them to keep current on issues relevant to the Company and its shareholders.

TAKE INTO ACCOUNT WIDER STAKEHOLDER AND SOCIAL RESPONSIBILITIES AND THEIR IMPLICATIONS FOR LONG-TERM SUCCESS

The Company's ability to achieve its long-term success is dependent on good relations across a wide range of stakeholders both internally (employees) and externally (partners, suppliers, regulatory authorities, local governments and communities in which we operate).

Our employees are one of the most important stakeholder groups and the Board recognises the need for two-way communication with the workforce. The small size of the Company means that the directors and senior managers are relatively accessible to all employees to provide and receive feedback. To retain our highly skilled workforce and keep their satisfaction high, the Company offers competitive remuneration, employee share option awards and health and critical illness cover. We seek to ensure that all employees are treated fairly and with dignity. The Company has a zero tolerance policy towards any form of discrimination or harassment.

We recognise our responsibilities to the environment and community in the areas in which we operate. The Company places a high priority on operating to high standards of integrity and ethics. We recognise that our activities may have impact on the environment and therefore aim to minimise that impact by operating in a socially responsible manner, engaging with local, regional and national stakeholders where we are operator. Since the Company is not the operator of OML 18, it does not control these matters on OML 18.

The Company seeks to behave as a responsible employer and make positive contributions to the local economies in which we have an interest. Engagement with local communities in which we operate has assisted the Board in implementing policies, such as local contracting and inviting school groups to well sites, as well as conducting social work such as on pages 44-45, and has helped them understand what we are doing.

The Board is aware of its duty to act in good faith in the interests of the Company and complies with the obligations under section 228 of the Companies Act 2014. All the Company's stakeholders have access to contact information for communication with the Company. Feedback is respectfully acknowledged by the Company and appropriately dealt with.

The Board believes that its investment in the wider stakeholder network will assist the Company's management in achieving its long-term goals by creating an environment of trust and communication which will have positive implications for the long term success of the Company.

The Board believes holding the Company's responsibilities in high regard to be a requirement for building its business and being considered an operator or partner of choice.

EMBED EFFECTIVE RISK MANAGEMENT, CONSIDERING BOTH OPPORTUNITIES AND THREATS, THROUGHOUT THE ORGANISATION

The Board acknowledges its overall responsibility for ensuring that the Company has a robust framework of risk management and an appropriate system of internal control. However, any system can only provide reasonable, not absolute, assurance against material misstatement or loss and is designed to manage (but cannot eliminate) the risk of failure to achieve business objectives.

The key risk management procedures:

- preparation and review of cash flow projections and expenditure monitoring, and of financial statements;
- establishment of appropriate policies for the management of financial, industry and country-specific risk;
- regular management meetings to review operating and financial activities, and financial staff requirements;
- consideration of industry and country-specific risks as part of the Company's review of strategy;
- recruitment of appropriately qualified and experienced staff to key financial and management positions; and
- preparation of financial statements.

MAINTAIN THE BOARD AS A WELL-FUNCTIONING, BALANCED TEAM LED BY THE CHAIR

The Board is responsible for setting the overall strategy of the business, reviewing management performance and ensuring the Company has sufficient financial and human resources to meet its objectives. It directs the Company's activities in an effective manner through regular Board meetings and monitors performance through timely and relevant reporting procedures.

The Board is specifically responsible for:

- approval of budgetary and business plans
- approval of significant investments and capital expenditure;
- approval of annual and half-year results and interim management statements, accounting policies and the appointment and remuneration of the external auditors;
- approval of interim, and recommendation of final, dividends and buybacks;
- changes to the Group's capital structure and the issue of any securities;
- agreeing the Group's risk appetite, establishing and maintaining a system of internal control, governance and approval authorities;
- executive performance and succession planning;
- determining standards of ethics and policy in relation to health, safety, environment, social and community responsibilities;
- disclosure to the market and shareholders.

The Board comprises the non-executive Chairman, four executive directors and three non-executive directors. The Chairman, Mutiu Sunmonu, is responsible for the leadership of the Board, ensuring its effectiveness and setting its agenda. He is not involved in the day-to-day operation of the Company. The Chairman is responsible for the Company's approach to corporate governance and the application of the principles of the QCA Code. The Company's independent directors, Mutiu Sunmonu, Mark Phillips, Linda Beal and Bill Higgs are independent of management and any business or other relationships which would interfere with the exercise of their independent judgement.

The Chairman considers that the Company has a balanced and diverse board with the requisite skills to build a successful, sustainable Nigerian-focussed oil and gas business.

To ensure that the directors can properly carry out their roles, they are provided with relevant information and financial details prior to all Board meetings. All directors have access to the advice and services of the Company Secretary, whose duty is to ensure that the Board complies with applicable rules and procedures.

The Board meets at least six times a year to discuss and decide the Company's business and strategic decisions and additional board calls are held as required. In addition, there is a high degree of contact between the directors outside of Board meetings to ensure all directors are aware of the Company's business. If necessary, the non-executive directors may take independent advice at the expense of the Company.

Each board member commits sufficient time to fulfil their duties and obligations to the Board and the Company. They attend board meetings and join ad hoc board calls and offer availability for consultation when needed. The contractual arrangements between the directors and the Company specify the minimum time commitments which are considered sufficient for the proper discharge of their duties. However, in exceptional circumstances all board members understand the need to commit additional time.

Board meetings attendance in 2018

	Maximum possible attendance	Meetings attended
Mutiu Sunmonu	10	10
Oisín Fanning	10	10
Joel Price	10	10
Ewen Ainsworth	10	10
Raymond King*	7	7
Alan Campbell	10	10
Linda Beal+	10	10
Mark Phillips	10	9
Bill Higgs^	6	5

* Resigned 28 September 2018.

+ Appointed to the Board on 16 January 2018 and has attended all Board meetings since her appointment.

^ Appointed to the Board on 22 May 2018.

THE BOARD COMMITTEES

The Board has established four separate committees: The Remuneration Committee, The Audit Committee, Nomination Committee, and Risk and Safety Committee.

REMUNERATION COMMITTEE

The Remuneration Committee consists of the Chairman, and two independent non-executive directors and is chaired by Mark Phillips.
The Remuneration Committee monitors the performance of the Company's executive directors and makes recommendations to the Board on the remuneration packages for the executives. The remuneration and terms and conditions of appointment of the non-executive directors are set by the Board as a whole.

Remuneration committee meetings and attendance in 2018

	Number of meetings	Number of meetings attended
Mutiu Sunmonu*	3	3
Mark Phillips (Chair)	3	3
Linda Beal	3	3

* Chair of the Committee until 28 November 2018.

AUDIT COMMITTEE

The Audit Committee consists of the Chairman and two independent non-executive directors and is chaired by Linda Beal who has recent and relevant financial experience. The duties of the Audit Committee include the review of the accounting principles, policies and practices adopted in preparing the financial statements, internal control processes and the review of the Company's financial results. The Audit Committee considers the need for an internal audit function, reviews the risk management policies and procedures and is responsible for ensuring that adequate insurance cover is in place for identifiable risks.

The Audit Committee also considers how to maintain an appropriate relationship with the Company's auditors. The Audit Committee approves any fees in respect of non-audit services provided by external auditors to safeguard the external auditor's independence and objectivity.

Audit committee meetings and attendance in 2018

	Number of meetings	Number of meetings attended
Mutiu Sunmonu	6	6
Mark Phillips	6	6
Linda Beal (Chair)	6	6

NOMINATION COMMITTEE

The Nomination Committee consists of the Chairman, the Chief Executive Officer and an independent non-executive director (Mark Phillips) who chairs the Nomination Committee. The Nomination Committee is responsible for reviewing the structure, size and composition of the Board and making recommendations to the Board regarding any changes required.

It is responsible for locating appropriate senior candidates and conducting initial interviews and submitting recommendations on any appointment to the Board.

Nomination committee meetings and attendance in 2018

	Number of meetings	Number of meetings attended
Mutiu Sunmonu	3	3
Mark Phillips (Chair)	3	3
Oisín Fanning	3	2

RISK AND SAFETY COMMITTEE

The Risk and Safety Committee consists of the Chairman, the Chief Operating Officer and an independent non-executive director (Bill Higgs) who chairs the Risk and Safety Committee. The Risk and Safety Committee is responsible for evaluating risks in Company operations including property, personnel, security and environmental risks and ensuring that appropriate procedures are in place for mitigating risk. The Risk and Safety Committee is also responsible for ethics and corporate social responsibility.

Risk and Safety committee meetings and attendance in 2018

	Number of meetings	Number of meetings attended
Mutiu Sunmonu*	1	0
Joel Price	1	1
Bill Higgs (Chair)^	1	1

* Chair of the Committee until 13 June 2018.

^ Appointed to the Board on 22 May 2018.

DEPARTURES FROM THE CODE

Non-executive directors' participation in Option Schemes

The Company encourages non-executive directors to participate in the Company's option schemes, and believes such participation enhances alignment between the non-executive directors and shareholders. The Company does not currently fully comply with the QCA Code in this respect.

The Board believes that independence is a matter of independence of mind, judgement and integrity and that Mutiu Sunmonu, Mark Phillips, Linda Beal and Bill Higgs are independent of management. The Board considers their ability to act independently to be unaffected by participation in the Company's option scheme.

Nomination Committee

Oisín Fanning (Chief Executive Officer) sits on the Nomination Committee along with Mutiu Sunmonu (non-executive Chairman) and Mark Phillips (non-executive director and Chair of the Nomination Committee). The Nomination Committee is responsible for reviewing the structure, size and composition of the Board and making recommendations to the Board with regard to any changes required. It is responsible for locating appropriate senior candidates and conducting initial interviews and submitting recommendations on any appointment to the Board.

The Board accepts that it is unusual for the Company's Chief Executive Officer to be part of this Committee. However, Mr Fanning has almost 30 years' experience in structured finance, stockbroking and corporate finance, with 12 years specialising in the oil and gas industry and as such has many useful and relevant contacts. He recognises the importance of finding and developing talented people to help the Company achieve its objectives and without his direct input, the Committee would be denied his relevant opinion on suitable candidates to join the Board.

ENSURE THAT BETWEEN THEM THE DIRECTORS HAVE THE NECESSARY UP-TO-DATE EXPERIENCE, SKILLS AND CAPABILITIES

The Board members bring extensive and diverse experience encompassing operational, financial, African, European, AIM and regulatory, commercial expertise and large and developing company experience.

The Chairman believes that the Board should always have a suitable mix of skills and competencies covering all essential disciplines bringing a balanced and diverse perspective that is beneficial both operationally and strategically.

The executive directors bring significant listed company, oil and gas operations and financial, commercial and transactions experience. The independent non-executive directors bring significant African oil and gas, investor, AIM and main board and financial expertise to the Board.

The nature of the Company's business requires the directors to keep their skillset up to date. The directors are kept informed on relevant regulatory compliance and statutory matters through briefings by external advisers and all executive and non-executive directors have access to the Company's external advisers.

The Company changed its Nominated Advisor ("Nomad") in 2018, a process which included the new Nomad making a presentation to the board on 'Directors' Responsibilities & Continuing Obligations under the AIM rules for Companies'.

The directors receive regular briefing papers on the operational and financial performance of the Company from the executive and senior management.

All Company non-executive directors also hold director (non-executive or executive) roles in other companies, helping to ensure broad and current experience. Further training is available at the Company's expense.

Summary background and diversity of the Board

	Background			Diversity	
Directors	Oil & gas / energy	Finance / commercial	Investor	Female	Non-UK / Irish
Mutiu Sunmonu	✓	✓	✓	–	✓
Oisín Fanning	✓	✓	✓	–	–
Joel Price	✓	✓	–	–	–
Ewen Ainsworth	✓	✓	✓	–	–
Alan Campbell	✓	✓	–	–	–
Ray King*	–	✓	✓	–	–
Linda Beal+	✓	✓	–	✓	–
Mark Phillips	–	✓	✓	–	–
Bill Higgs^	✓	✓	–	–	–

* Resigned 28 September 2018.

+ Appointed to the Board on 16 January 2018.

^ Appointed to the Board on 22 May 2018.

EVALUATE BOARD PERFORMANCE BASED ON CLEAR AND RELEVANT OBJECTIVES, SEEKING CONTINUOUS IMPROVEMENT

The Board considers that the combination of non-executive and executive directors is of sufficient competence and experience to support the strategy and development of the Company. During 2018, the Nomination Committee sought to add independent technical and operational experience to the Board, which resulted in Bill Higgs being appointed in May 2018.

The Chairman and Nomination Committee will continue to review and monitor the strength and objectivity of the board and seek improvement.

Succession planning

Succession planning is currently undertaken on an informal basis by the CEO in consultation with the Board. The Board is satisfied that this is appropriate for this stage in the Company's development.

Formal evaluation of Board and directors

The Board engaged an external third party consultant to observe and evaluate its Board meetings from Q2 2018, with one of their deliverables being to review directors' and Board performance. Initial minor recommendations to improve Board processes and procedures have already been implemented.

While the Chairman and the Nomination Committee evaluate requirements for the Board, an external third party was asked to review certain matters. A formal evaluation process for the Board as a whole, as well as of its Committees and directors, was implemented in December 2018. The review assessed the Board's role and responsibilities in connection with the strategy, the effectiveness of all aspects of the Board and its Committees, including composition, experience, dynamics and succession planning. The Chairman led the process. The executive directors and other non-executive directors reviewed the Chairman's leadership and performance.

PROMOTE A CORPORATE CULTURE THAT IS BASED ON ETHICAL VALUES AND BEHAVIOURS

Our ethics

The Company is committed to upholding high ethical standards and principles, both in letter and in spirit, throughout all of our operations. The Company aspires to, and encourages its staff to, operate in a socially responsible manner, acting professionally at all times.

The Company is committed to a strong ethical and values-driven culture encompassing the high standards of quality, honesty, openness and accountability, and understands that any issues counter to this culture could have an extremely negative impact on the business. The Company, its management, employees, contractors and partners have the responsibility of applying the highest standard of ethical business practices in all their relationships with shareholders, suppliers, and the general public.

Creating a fair and inclusive culture

The Company promotes an inclusive, transparent and respectful culture. Our people are our greatest asset. Led by the values of responsibility, excellence and continuous improvement, integrity and trustworthiness, cooperation and engagement, empathy and fairness they apply their skills and expertise every day to ensure we operate both responsibly and successfully.

The Company is an equal opportunity employer and seeks to hire, endorse and retain highly skilled people based on merit, competence, performance, and business needs. The Company is committed to employment policies which follow best practice, based on equal opportunities for all employees, irrespective of ethnic origin, religion, political opinion, gender, marital status, disability, age or sexual orientation.

The Company communicates its corporate culture through staff presentations and inductions. To embody and promote sound ethical principles, the Board has endorsed the following key policies:

- HR handbook (UK and Ireland);
- Share-dealing Code;
- Anti-Bribery and Corruption Policy;
- Whistle Blowing Policy; and
- Health and Safety and Environmental Protection Policies.

Share-dealing Code

The Company has adopted a share-dealing code for directors and applicable employees of the Company to ensure compliance with the provisions of the AIM Rules (including relating to the restrictions on dealings during closed periods in accordance with MAR and with Rule 21 of the AIM Rules for Companies). The directors consider that this share dealing code is appropriate for a company whose shares are admitted to trading on AIM. The Company takes all reasonable steps to ensure compliance with the share-dealing code by the directors and applicable employees with the terms of the share-dealing code and the relevant provisions of the AIM Rules (including Rule 21).

Health and Safety and Environmental Policy

The Company's objectives include observing the highest level of health and safety standards, developing our staff to their highest potential and being a good corporate citizen in our chosen countries of operations.

The Company is committed to providing a safe working environment for its employees and anyone doing work on the Company's behalf. The Risk and Safety Committee reviews and makes recommendations concerning risk, health and safety issues. The HS&E performance indicators and the safety of our employees are principal elements of our business and are fundamental to our culture and engagement with our stakeholders. HS&E is covered at board meetings during discussion on operations.

Whistleblowing Policy

The Company has a Whistleblowing Policy in place to assist employees, suppliers, contractors and others with the reporting of any malpractice or illegal act or omission by others. The policy is reviewed at least every two years or more often if necessary and is communicated to all employees. It was last reviewed in September 2018.

Anti-Bribery and Corruption Policy

The Company's Anti-Bribery and Corruption Policy formalises the Company's zero-tolerance approach to bribery and corruption. The Company expects all employees, suppliers, contractors and consultants to conduct their day-to-day business activities in a fair, honest and ethical manner, and to be aware of and refer to the Anti-Bribery & Corruption Policy in all of their business activities worldwide and to conduct all business in compliance with it. The Company seeks to enforce effective systems to counter bribery, such as secondary authorisations for payments.

The Company intends to audit the conduct of business activities regularly to ensure these policies are strictly adhered to and the core values are respected. We also expect and require high standards of behaviour from our partners. The Policy was last reviewed in September 2018.

MAINTAIN GOVERNANCE STRUCTURES AND PROCESSES THAT ARE FIT FOR PURPOSE AND SUPPORT GOOD DECISION-MAKING BY THE BOARD

The Board of Directors recognises the importance of applying the highest standards of corporate governance to enable effective and efficient decision making, and to give a structural aid for directors to discharge their duty to promote the success of the company for the benefit of its shareholders.

The Board reserves for itself a range of key decisions to ensure that it retains proper direction and control of the Company whilst delegating authority to individual directors who are responsible for the day to day management of the business.

The following matters are reserved for the Board:

- all matters which exceed the authority delegated to the Group executives;
- mergers and acquisitions transactions;
- strategy, budgets and business plans;
- audit, financial and other reporting;
- changes in the capital structure of the company and the issue of shares or other securities by the company;

- policies and guidelines;
- internal controls and governance;
- appointment or removal of directors and the Group company secretary;
- establishment of sub-boards and committees;
- appointment, re-appointment or removal of the auditors and any other corporate advisers;
- appointment and removal of trustees of the Group's pension arrangements; and
- management development, remuneration and employee benefits.

The Company conducts a review of the Company's governance framework each year and takes into account audit recommendations. The appropriateness of the Company's governance structures will continue to be reviewed in light of further developments of accepted best practice and the development of the Company.

COMMUNICATE HOW THE COMPANY IS GOVERNED AND IS PERFORMING BY MAINTAINING A DIALOGUE WITH SHAREHOLDERS AND OTHER RELEVANT STAKEHOLDERS

San Leon Energy is committed to open communication with all its stakeholders. The Company believes it is important to explain business development and financial results to its stakeholders and to ensure that suitable arrangements are in place so that the issues and concerns of major stakeholders are heard and understood.

The Company communicates with all stakeholders through its website, Regulatory News Service ("RNS") announcements, Annual Report and Accounts, half yearly announcements, AGMs and private meetings.

Copies of the Annual Report and Financial Statements are issued to all shareholders who have requested them and copies are available on the Group's investor website www.sanleonenergy.com. The Group's interim results are also made available on the Company's website. The Group makes full use of its investor website to provide information to shareholders and other interested parties.

The Chief Executive Officer and other executive directors are responsible for communicating with major shareholders and other shareholders who wish to be part of a dialogue. The Chairs of the Audit, Remuneration, Nomination and Risk and Safety Committees are also available to answer questions at the AGM.

The Board discloses the result of general meetings by way of announcement and discloses the proxy voting numbers to those attending the meetings. In order to improve transparency, the Board has committed to announcing proxy voting results in future and disclosing them on the Company's website.
In the event that a significant portion of voters have voted against a resolution, an explanation of what actions it intends to take to understand the reasons behind the vote will be included.

Signed on behalf of the Board by:

Mutiu Sunmonu
Non-Executive Chairman

26 June 2019

AUDIT COMMITTEE REPORT

The Audit Committee comprises 3 members, all of whom are independent non-executive directors including the chair, Linda Beal, who is considered by the Board to have recent and relevant financial experience. The Audit Committee meets formally at least four times a year and otherwise as required and also meets with the Company's external auditors at least twice a year.

Roles and responsibilities

The main roles and responsibilities of the Audit Committee are to:

- monitor the integrity of the financial statements, including review of the accounting policies, key judgements and estimates adopted in preparing the financial statements, and any formal announcements relating to financial performance;
- review and monitor the Company's financial reporting, internal control and risk management systems to ensure that effective risk management and financial control frameworks have been implemented;
- make recommendations to the Board in relation to the appointment, reappointment or removal of the external auditor and approve engagement terms and fees of the auditor;
- review and monitor the scope of the annual external audit;
- review and monitor the independence of the external auditor; and
- consider the need for an internal auditor.

Internal control and risk management

San Leon has established terms of reference for the Audit Committee. This includes overview of the identification, categorisation and prioritisation of critical risks within the business and allocation of responsibility to its executives and senior managers. The objectives of this risk management policy are to:

- provide a structured risk management framework that will provide senior management and the Board with comfort that the risks confronting the organisation are identified and managed effectively;
- create an integrated risk management process owned and managed by the Group's personnel that is both continuous and effective;
- ensure that the management of risk is integrated into the development of strategic and business plans, and the achievement of the Group's vision and values; and
- ensure that the Board is regularly updated with reports by the committee.

The Board also acknowledges its overall responsibility for ensuring that the Company has a system of internal control in place that is appropriate. This includes ensuring the implementation of policies and procedures that address risk identification and control, training and reporting. Management is responsible for efficient and effective risk management across the activities of the Group.

The Audit Committee reviews the effectiveness of the implementation of the risk management system and internal control system annually. When reviewing risk management policies and the internal control system the Board takes into account the Company's legal obligations and also considers the reasonable expectations of the Company's stakeholders.

The key policies and procedures are:

- preparation of annual budgets for approval by the board;
- ongoing review of expenditure and cash flow versus approved budget;
- establishment of appropriate cash flow management and treasury policies for the management of liquidity, currency and credit risk on financial assets and liabilities, along with delegations of authority and bank mandates;
- regular management, committee, and board meetings, to review operating and financial activities;
- recruitment of appropriately qualified and experienced staff to key financial and management positions;
- preparation of the annual report, related financial statements and annual audit thereof; and
- a risk register to assist with the identification and management of risk.

The principal areas of risk for the Company are set out in the Directors' report on page 38.

Management update the risk register regularly and the Audit Committee reviews the risk register at least twice annually.

The Audit Committee also ensures that appropriate procedures, resources and controls are in place to comply with the AIM rules and monitors compliance thereof. The Company has adopted a model code for directors' share dealings which is appropriate for an AIM listed company. The directors comply with Rule 21 of the AIM Rules relating to directors' dealings and take all reasonable steps to ensure compliance by the Company's applicable employees. There are also anti-bribery and corruption, whistleblowing, and environmental policies, as well as an annual review of compliance with the Irish Companies Act 2014.

In order to ensure the independence and objectivity of the external auditor, the Audit Committee has a policy regarding the provision of non-audit services by its external auditor to ensure that such services do not impair the independence or objectivity of the external auditor.

Activities of the Audit Committee

During 2018 the Audit Committee undertook a review of controls and procedures and with management identified a number of important areas for improvement and oversaw implementation of the recommendations, some of which were completed in the first half of 2019:

- adoption of an upgraded accounting system and improvements in resilience of the IT system;
- implementation of a central filing system for all major contracts and documents;
- improved annual report and accounts process;
- broadening of the Company's banking arrangements;
- implementation of a board performance review; and
- commissioned an independent review of insurance cover.

In addition, the Audit Committee considered the need for internal audit and decided to appoint an external firm as internal auditor. The internal auditor is undertaking two internal audit reviews in 2019.

2018 financial statements

The Audit Committee reviewed the interim financial statements.

The Audit Committee reviewed the planning of the 2018 audit and annual report.

With regard to the Group's financial statements, the Audit Committee considered:

- the appropriateness of the Group's key accounting policies;
- the clarity and acceptability of accounting policies and practices;
- the clarity of the disclosures and compliance with financial reporting standards and relevant financial and governance reporting requirements;
- material areas in which significant judgements have been applied or there has been discussion with the external auditor; and
- whether the Annual Report and financial statements taken as a whole present a fair, balanced and understandable body of information that provides the data necessary for shareholders to assess the Company's performance, business model and strategy.

The Audit Committee received and considered memoranda from management regarding these matters and discussed these with the external auditor.

The Audit Committee determined that the key risks of misstatement of the Group's financial statements related to the carrying value of the MLPL Loan Notes and equity interest and the Net Profit Interest (NPI) on the Barryroe oil field in addition to going concern. These matters were discussed with management during the year when the Committee considered the interim financial statements and in 2019 when the Committee reviewed the Annual report and financial statements.

Valuation of MLPL Loan Notes and equity interest

At 31 December 2018 there is €124.3 million (US$142.4 million) in principal due on a cash receipt basis under the MLPL loan notes. The value of the equity interest in MLPL at 31 December 2018 was €48.1 million (US$55.1 million). The Audit Committee considered the ability of the underlying parties and assets to meet the obligation to the Company and the value of the equity interest both in the light of the performance to date and expected future performance. This is explained in detail in Note 17 of the financial statements.

Valuation of 4.5% NPI on the Barryroe oil field

The carrying value of the 4.5% NPI on the Barryroe oil field at 31 December 2018 was €44.7 million (US$51.1 million). The Audit Committee considered the assumptions in valuation which included timing, oil price, costs and risk, and considered them reasonable and appropriate.

Going concern

The Audit Committee reviewed the detailed cash flow forecast for the Group and the Company for the period from 1 June 2019 to 31 December 2020, the principal assumptions underlying the cash flow forecast and the availability of finance to the Group. The Audit Committee considered that whilst any quarterly Loan Notes payment, if delayed or not received, represents an uncertainty, the receipt of further Loan Notes payments is not required given the cash flow forecast assumptions including expected income from the provision of drilling technical and management services in order for the Group to continue as a going concern. Therefore the Audit Committee concluded that it was appropriate to recommend adoption of going concern as the basis of preparation of the financial statements.

Signed on behalf of the Audit Committee by:

Linda Beal
Chair of the Audit Committee

26 June 2019

REMUNERATION COMMITTEE REPORT

The Group's policy on senior executive remuneration is designed to attract and retain individuals of the highest calibre who bring relevant experience and independent views to the development of policy, strategic decisions and governance of the Group.

In determining remuneration levels, the Remuneration Committee takes into consideration the practices of other companies of similar scope and size. A key philosophy is that staff should be properly rewarded and motivated to perform in the best interests of the shareholders.

Director emoluments and pension contributions, excluding share option arrangements, during the year ended 31 December 2018 were as follows:

	Salary & emoluments €'000	Bonus= €'000	Pension €'000	Fees & services €'000	Benefits €'000	Shares to be issued €'000	2018 Total €'000
Mutiu Sunmonu>	–	–	–	137	–	–	137
Oisín Fanning#	424	440	–	50	29	660	1,603
Raymond King+^§	–	–	–	365	–	–	365
Joel Price	396	157	30	53	–	–	636
Alan Campbell	396	157	30	53	–	–	636
Ewen Ainsworth°†	339	–	24	53	–	–	416
Mark Phillips	–	–	–	58	–	–	58
Linda Beal~*	–	–	–	88	–	–	88
Bill Higgs<			–	30	–	–	30
	1,555	**754**	**84**	**887**	**29**	**660**	**3,969**

Oisín Fanning is also due 5,590,270 ordinary shares in lieu of 80% of his salary for the period of January 2016 through to 30 September 2018 inclusive. These shares were issued in February 2019.

+ Resigned 28 September 2018.

~ Appointed 16 January 2018.

< Appointed 22 May 2018.

> The Group has a consultancy agreement with Mutiu Sunmonu and Greenbay Energy Resources Limited. Please see Note 32 for further details.

^ The Group has a consultancy agreement with Raymond King and Surplan Limited. Please see Note 32 for further details.

° The Group has a consultancy agreement with Ewen Ainsworth and Discovery Energy Limited. Please see Note 32 for further details.

* Linda Beal Consultancy LLP provides consultancy services to the group. Please see Note 32 for further details.

† See Note 34.

§ Raymond King was paid a termination payment of €186,000 which is included in fees and services.

= Bonuses not paid to directors at 31 December 2018. 50% of amounts due to Joel Price and Alan Campbell were paid in March 2019 and the remaining 50% is due be paid by 30 June 2019. 50% of amounts due to Oisín Fanning were paid in March 2019 and the remaining 50% was offset against the directors loan. Please see Note 32 for further details.

Director emoluments and pension contributions, excluding share option arrangements, during the year ended 31 December 2017 were as follows:

	Salary & emoluments €'000	Bonus= €'000	Pension €'000	Fees & services €'000	Benefits €'000	Shares to be issued €'000	2018 Total €'000
Mutiu Sunmonu>	–	–	–	139	–	–	139
Oisín Fanning#*	203	355	–	50	42	812	1,462
Raymond King+^	–	–	–	186	–	–	186
Joel Price	401	138	30	53	–	–	622
Alan Campbell	401	138	30	53	3	–	625
Ewen Ainsworth°	344	–	24	53	–	–	421
Mark Phillips	–	–	–	58	–	–	58
Nick Butler+	–	–	–	44	–	–	44
	1,349	**631**	**84**	**636**	**45**	**812**	**3,557**

+ Resigned 6 September 2017.

Oisín Fanning is due 2,542,432 ordinary shares in lieu of 80% of his salary for the year 1 January 2017 to 31 December 2017. He is also due 510,510 ordinary shares in respect of 2016.

* In addition, Oisín Fanning is due €1,682,879 in respect of personal loan guarantees provided by him, on behalf of the Company.

~ Appointed 16 January 2018.

< Appointed 22 May 2018.

> The Group has a consultancy agreement with Mutiu Sunmonu and Greenbay Energy Resources Limited. Please see Note 32 for further details.

^ The Group has a consultancy agreement with Raymond King and Surplan Limited. Please see Note 32 for further details.

° The Group has a consultancy agreement with Ewen Ainsworth and Discovery Energy Limited. Please see Note 32 for further details.

= Bonuses not paid to directors as at 31 December 2017 or at 28 June 2018. See Note 23, 'Other creditors'.

In addition to the emoluments above, in accordance with IFRS 2, share based payments, a cost of €169,361 (2017: €Nil) has been recognised in respect of share options granted to directors. See Note 29 for further details of share options.

Directors' interests

The directors and Company Secretary who held office at 31 December 2018, except where indicated, had no interests other than those shown below in the Ordinary Shares of the Company. All interests are beneficially held by the directors.

	Number of Ordinary Shares		
Director	26/06/19	31/12/18	01/01/18
Oisín Fanning	9,225,864	3,635,594	3,635,594
Ewen Ainsworth	66,666	66,666	66,666

Share options

Details of share options granted to the directors are as follows:

	Options at 01/01/18	Granted in year	Lapsed in year	Options at 31/12/18	Exercise price	Expiry date
Mutiu Sunmonu	1,000,000	–	–	1,000,000	£0.45	20/09/23
Oisín Fanning¬	30,000	–	(30,000)	–	£11.00	14/11/18
	35,000^	–	(35,000)	–	£35.00	13/02/18
	55,000*	–	(55,000)	–	€5.00	14/11/18
	35,000	–	–	35,000	£13.00	20/03/19
	55,000*	–	–	55,000	€5.00	06/07/19
	1,500,000	–	–	1,500,000	£0.45	20/09/23
Raymond King~¬	2,500	–	(2,500)	–	£11.00	14/11/18
	15,000	–	–	15,000	£13.00	20/03/19
	1,000,000	–	–	1,000,000	£0.45	20/09/23
Joel Price¬	2,000,000	–	–	2,000,000	£0.60	10/01/22
	1,500,000	–	–	1,500,000	£0.45	20/09/23
Alan Campbell¬	2,000,000	–	–	2,000,000	£0.60	10/01/22
	1,500,000	–	–	1,500,000	£0.45	20/09/23
Ewen Ainsworth	1,000,000	–	–	1,000,000	£0.45	20/09/23
Mark Phillips	1,000,000	–	–	1,000,000	£0.45	20/09/23
Linda Beal+	–	1,000,000	–	1,000,000	£0.45	16/01/25
Bill Higgs#^	–	–	–	–	–	–

* Options vest subject to achievement of a production target of over 501 barrels of oil equivalent per day within the life of the option. All other options vest immediately on grant.

~ Resigned 28 September 2018.

+ Appointed 16 January 2018.

Appointed 22 May 2018.

^ On his appointment on 22 May 2018, the Board approved the grant of 1,000,000 of share options at a strike price £0.45, however as the Company was in a closed period at the date of award these options were not formally awarded until February 2019.

¬ All existing Company share options which had an exercise price above 45 pence per ordinary share, were repriced with an exercise price of 45 pence on 20 February 2019. All other terms remain unchanged.

Transactions involving directors

Contracts and arrangements of significance during the year in which directors of the Company were interested are disclosed in Note 32 to the financial statements.

Signed on behalf of the Remuneration Committee by:

Mark Phillips
Remuneration Committee Chair

26 June 2019

NOMINATION COMMITTEE REPORT

During 2018 the Nomination Committee reviewed the terms of reference, a copy of which is available on the Company's website.

A review was undertaken of the board composition and capabilities, and it was recommended strengthening the board with the addition of Linda Beal and Bill Higgs as non-executive directors.

In addition, the executive capabilities and resources were reviewed. It was concluded that there is no current or near term requirement to augment the team but this will continue to be reviewed as appropriate.

It was agreed that further consideration needs to be given to succession planning even though there is a well-resourced and capable team in place currently.

Mark Phillips
Nomination Committee Chair

26 June 2019

RISK AND SAFETY COMMITTEE REPORT

During 2018 the Risk and Safety Committee reviewed the terms of reference, a copy of which is available on the Company's website.

It was decided that an updated health, safety, environment and quality management system was required for the provision of services under the OML 18 Master Services Agreement and for office based activity, inclusive of a journey management policy.

The ethics and corporate social responsibility policies are also to be reviewed.

These are currently work in progress and are expected to be concluded during 2019.

Bill Higgs
Risk and Safety Committee Chair

26 June 2019

DIRECTORS' REPORT

FOR THE YEAR ENDED 31 DECEMBER 2018

The directors present their annual report together with the audited financial statements of San Leon Energy plc ("the Company") and its subsidiaries (collectively "the Group") for the year ended 31 December 2018.

Principal activity and future developments

The principal activities of the company are the holding of an initial indirect 10.584% economic interest in OML 18 Nigeria, through its investment in Midwestern Leon Petroleum Limited ("MLPL"), and the exploration and production of oil and gas.

A detailed review of activities for the year and future prospects of the Group is contained in the Chairman's Statement and CEO's Statement.

"

TO DATE PAYMENTS TOTALLING €100.1 MILLION (US$116.5 MILLION) HAVE BEEN MADE."

Oisín Fanning
CEO

Results and dividends

The Group profit (loss) for the year after providing for depreciation and taxation amounted to €7.2 million (2017: loss of €73.5 million).
Net assets of the Group at 31 December 2018 amounted to €228 million (2017: €225.3 million).
Exploration & evaluation impairments / write off totalled €2.7 million in 2018 (2017: €42.8 million).
No dividends are proposed by the directors.

Principal risks and uncertainties

There are a number of potential risks and uncertainties that could have a material impact on the Group's long-term performance. The Board has overall responsibility for managing risk.

The Group's principal areas of oil and gas exploration and production activity are in Nigeria and a Net Profit Interest on the Barryroe oil field (offshore Ireland). The Group has a management structure and system of internal controls in place designed to identify, evaluate, manage and mitigate business risk, including HSE risks. Risks are formally identified and recorded in a risk register which is reviewed by the Board and appropriate processes are in place to implement and monitor mitigating controls.

The executive directors are closely involved in the day to day management of the business and have oversight of all the controls the business has in place, including financial, operational (including HSE) and compliance controls, as well as overseeing risk management. Each board member commits sufficient time to fulfil their duties and obligations to the Board and the Company.

The Audit Committee, which is comprised of certain independent non-executive directors, monitors and promotes high standards of integrity, financial reporting, risk management and internal control. For details of the Audit Committee's performance refer to the Audit Committee Report on page 30. Risks and uncertainties, which are not exhaustive, which are particularly relevant to the Company and the Group's business activities are considered to be the following:

Going concern and Loan Notes repayment

The directors have reviewed budgets, projected cash flows and other relevant information, and on the basis of this review, concluded that the Group and the Company will have adequate financial resources to continue in operational existence for the foreseeable future which covers a period of at least twelve months from the date of approval of these financial statements.

As set out in Note 1 to the financial statements, there are a number of assumptions underlying the Group's cash flow projections. The principal cash flows expected by the Group are interest and capital repayments on the MLPL Loan Notes and dividend income.

To date quarterly payments totalling €100.1 million (US$116.5 million) have been made on behalf of MLPL and received by the Company. €14.7 million (US$16.5 million) was due on 1 April 2019 under the terms of the Loan Notes and is outstanding.

When the outstanding amount of the quarterly Loan Notes payment is received there will be more than sufficient cash funds for the Group and Company to remain a going concern for at least 12 months from the date of approval of the financial statements. This projection takes into account the repurchase of €26.8 million (US$30.5 million) of the Company's shares, completed in March 2019.

The directors have discussed the assumptions and basis of preparation of the projections and, having considered the financial resources available, believe that it is appropriate to prepare the financial statements on the going concern basis.

Risk Management

Managing risks in an international oil and gas company is essential to stability and long term sustainability. The Company's Board has overall responsibility for risk identification and control and has developed a risk management structure to identify risks, evaluate the impact of certain risks, assess the likelihood of risks occurring and implementing risk mitigation measures where possible to reduce each risk to an acceptable level in accordance with the Group's appetite for risk.

Risks are formally identified and recorded in a risk register which is reviewed by the Board. The executive directors are closely involved in the day to day management of the business and have oversight of all the controls the business has in place, including financial, operational (including HSE) and compliance controls, as well as overseeing risk management.

As part of our overall goal to reduce risk across the organisation, the risk register was fully reviewed in 2018, and a further internal review started in 2019.

As part of our goal to seek continual improvement of the risk management process, the following tasks were completed in 2018:

- Each employee was updated and reminded of their responsibility concerning all Anti-Bribery and Corruption policies;
- The Audit Committee initiated a risk evaluation scoring matrix for each risk with the objective of seeking wider input from across the organisation.

This assessment helped identify the impact of high risks and mitigation progress can also be evaluated through the register from review-to-review

The Board recognises that risk cannot be fully eliminated but it is their responsibility to ensure that risk assessment and mitigation is as thorough and vigorous as possible. The following principal risks and uncertainties, which are not exhaustive, with their mitigation actions are particularly relevant to the Company.

RISK	MITIGATION
MLPL Loan Notes Repayments / Going Concern	As set out in Note 1 to the financial statements, there are a number of assumptions underlying the Group's cash flow projections. The principal cash flows expected by the Group are interest and capital repayments on the MLPL Loan Notes. The directors have reviewed budgets, projected cash flows and other relevant information, and on the basis of this review, concluded that the Group and the Company will have adequate financial resources to continue in operational existence for the foreseeable future which covers a period of at least twelve months from the date of approval of these financial statements. This projection takes into account the repurchase of €26.8 million ($30.5 million) of the Company's shares, completed in March 2019. The directors, having discussed the assumptions and basis of preparation of the projections and, having considered the financial resources available; believe that it is appropriate to prepare the financial statements on the going concern basis.
Partnership Risk	The Group's principal asset is its indirect interest in OML 18, held through an indirect shareholding in Eroton, a Nigerian registered entity, and operator of OML 18. Partners may develop different strategic, operational or capital plans that may not agree with Company preferences. Eroton manages operational and financial risk associated with OML 18, and as mentioned in commodity risk section below, hedging is one mitigating action which has been established to ensure ongoing repayment of Eroton RBL facility. Failure to pay royalties and taxes or meet other regulatory obligations could result in the OML 18 lease being rescinded. The Company has board representation throughout the ownership structure, including two board positions on the Eroton board, and remains in constant dialogue with its partners to help design effective, coherent and transparent working relationships and structures that are sufficient to meet all obligations.
Political Instability / OML 18 Operational Disruption	OML 18 operations are exposed to the risk of delays and interruptions to production due to various causes including political instability, sabotage, pipeline losses, operational downtime, slow progress caused by unexpected downhole challenges, operational funding, and procedural delays with JV partners and authorities. Severe operational delays or disruption could lead to an inability to produce oil and repay the Eroton RBL debt facility, which could lead to the loss of OML 18, or an inability to pay dividends. Eroton is a local experienced operator completely focussed on OML 18 regulatory requirements and maintaining dialogue with local communities. San Leon Energy has appointed a senior operations manager with downhole operational experience to work with the Eroton team. While cargo shipping delays and pipeline losses have been experienced on OML 18, Eroton is also exploring an alternative oil evacuation route to mitigate against risk of such delay and losses.
Bribery & Corruption	The area in which the Company holds its material asset scores low relatively to many countries with regard to bribery and corruption issues. The Company has a zero tolerance policy on such matters. The Company has an Anti-Bribery & Corruption Policy in place that is monitored and updated in accordance with UK standards. The Company also has a Whistleblowing Policy in place to encourage confidential reporting of any issues that may be illegal or suspicious.

RISK	MITIGATION
Geological and Development Risk	The Company depends on maintaining successful development projects to achieve revenue and success. However, the level of production and cash flow from OML 18 is an estimated value and may not materialise as originally expected. This risk is specific to the geological and engineering factors involved in estimation and projection of the expected capacity of new or existing projects. Exploration and development activities may be delayed or adversely affected by factors outside the Group's control, including, climatic conditions, performance of joint venture partners or suppliers, availability of drilling and other equipment, delays or failures in installing and commissioning plant and equipment, unknown geological, well and equipment conditions, remoteness of location, actions of host governments or other regulatory authorities (relating to, inter alia, the grant, maintenance or renewal of any required authorisations, environmental regulations or changes in law). The Group utilises its experience, external contractors and that of its partners, in particular Eroton, to determine the resource and development assumptions to ensure the Board maintains a realistic view of resources and development expectations.
Commodity Price Risk	The demand for, and price of oil and gas is dependent on supply and demand, actions of governments and general global economic and political developments. Eroton, as operator of OML 18, has in place a put option at $50 per barrel for a portion of its production. In effect this provides a price floor for that portion of production, while providing access to price upside. It is designed to protect the ability of Eroton to service RBL debt facility repayments at Eroton level. Further hedging instruments are expected to be put in place to mitigate risk.
Health, Safety & Environmental Risk	The Company has an impeccable record on health, safety and environmental matters. However, the Board recognises that a company can never be complacent and the protection of people, the environment and our assets is central to San Leon Energy's values and principles. As such the Company has established a Risk & Safety Committee to ensure risks are managed appropriately in accordance with international best practice and legislation. Compliance with any changes to legislation may require stricter or additional standards than those now in effect. These could result in heightened responsibilities and could cause additional expense, capital expenditures, restrictions and delays in the activities, the extent of which cannot be predicted. The company is dependent on Eroton to impose and maintain required standards to OML 18 operations.
Financial & Currency Risk	The Group's multinational operations expose it to different financial risks that include foreign exchange risk, fiscal and tax risk, credit risk, liquidity risk, interest rate risk, and equity price risk. Details of the principal financial risks are set out in Note 33. Although the reporting currency is Euro, significant transactions denominated in other currencies are entered into by the Group including the MLPL Loan Notes, Loan Notes repayments and interest, exploration expenditure, other costs, and equity funding, thus creating currency exposures for the Group. The Group manages its exposure by matching receipts and payments in the same currency and monitoring the residual net cash position and future income profile. The Group has a risk management programme in place which seeks to limit the impact of these risks on the performance of the Group and it is the policy to manage these risks in a non-speculative manner.
Share Price Risk	The share price of the Company can increase or decrease. A fall with the share price could be caused by many factors including negative changes in value of assets or profitability, general market changes or regional or sector specific trends. The share price movement in the year ranged from a low of Stg£0.21 to a high of Stg£0.32. The share price at 31 December 2018 was Stg£0.26. The Board, through its risk management and corporate governance, seeks to protect share price value, but there are many external factors outside of its control.

DIRECTORS

The directors of San Leon Energy plc, all of whom served for the full year, except where indicated, are as follows:

- **Mutiu Sunmonu,** Non-Executive Chairman
- **Oisín Fanning,** Chief Executive Officer
- **Joel Price,** Chief Operating Officer
- **Alan Campbell,** Commercial and Business Development Director (appointed Company Secretary on January 17, 2019)
- **Ewen Ainsworth,** Finance Director
- **Raymond King,** Non-Executive Director and Company Secretary (resigned as a director 28 September 2018)
- **Mark Phillips,** Non-Executive Director
- **Linda Beal,** Non-Executive Director (appointed 16 January 2018)
- **Bill Higgs,** Non-Executive Director (appointed 22 May 2018)

In accordance with the Articles of Association, Joel Price and Alan Campbell retire from the Board by rotation and, being eligible, offer themselves for re-election.

SIGNIFICANT SHAREHOLDERS

The Company has been informed that, in addition to the interests of the directors at 31 December 2018 and at 26 June 2019 (see Remuneration Report), the following shareholders owned 3% or more of the issued share capital of the Company:

	Percentage of issued share capital	
	26/06/19	31/12/18
Funds managed by Toscafund Asset Management LLP	71.59%	62.33%
Midwestern Oil & Gas Company Limited	13.01%	9.44%
The Capital Group Companies Inc.	–	6.47%
Total Investment Solutions SA	–	7.94%
Amara Equity Invest SA	–	6.35%
OWG PLC	<3%	3.91%

Note: Total Investment Solutions SA ("Total") and Amara Equity Invest SA ("Amara") were issued 71,487,179 shares in total on behalf of Suntrust in September 2016. The Company received a notice on 21 June 2019 from Midwestern Oil & Gas Company Limited that it was now the registered holder of 59,298,723 of those shares. The Company has requested Total and Amara to confirm whether they still have a notifiable interest in the Company.

The directors are not aware of any other holding of 3% or more of the share capital of the Company.

ACCOUNTING RECORDS

The directors are responsible for ensuring adequate accounting records, as outlined in Section 281 to 285 of the Companies Act 2014, are kept by the Company. The directors, through the use of appropriate procedures and systems and the employment of competent persons, have ensured that measures are in place to secure compliance with these requirements. The books and accounting records are maintained at 3300 Lake Drive, Citywest Business Campus, Dublin 24.

Group transparency

Part 26 of the Companies (Accounting) Act 2014 came into force on the 1 January 2017. This required companies operating in the extractive sector to publicly disclose payments made to National Governments. The Act implements Chapter 10 of EU Accounting Directive (2013/34/EU).

The payments disclosed are based on where the obligation arose which in our case is Ireland and Poland. Payments are disclosed by license where the aggregate of the payment in the year exceeds €100,000 otherwise they are combined into a corporate level payment which consolidated all the smaller payments.

All of the payments disclosed in accordance with the law have been made to National Governments, covering both direct and indirect payments.

The payments type covered by this disclosure are:

- Licence fees: Licence fees cover the costs associated with holding each of our licences.

Licence	Licence fees €'000
2018	
Corporate#	35
Total Poland	35
2017	
Corporate#	248
Total Poland	248

Corporate is the consolidated total of all our Polish licences where the total of each licence payment in the year is less than €100,000.

Relevant audit information

The directors believe that they have taken all necessary steps to make themselves aware of any relevant audit information and have established that the Company's statutory auditors are aware of this information. In so far as they are aware there is no relevant audit information of which the Company's statutory auditors are unaware.

EVENTS SINCE THE YEAR END

Details of significant events since the year end are included in Note 34 to the financial statements.

GROUP UNDERTAKINGS

Details of the Company's subsidiaries are set out in Note 16 to the financial statements.

POLITICAL DONATIONS

There were no political donations made during the current or prior year.

COMPLIANCE POLICY STATEMENT OF SAN LEON ENERGY PLC

The directors, in accordance with Section 225(2) of the Companies Act 2014, acknowledge that they are responsible for securing the Company's compliance with certain obligations specified in that section ('relevant obligations'). The directors confirm that:

- a compliance policy statement has been drawn up setting out the Company's policies that in their opinion are appropriate with regard to such compliance;
- appropriate arrangements and structures have been put in place that, in their opinion, are designed to provide reasonable assurance of compliance in all material respects with those relevant obligations; and
- a review has been conducted, during the financial year, of those arrangements and structures.

AUDITOR

The Auditor, KPMG, Chartered Accountants, have indicated their willingness to continue in office in accordance with the provisions of Section 383(2) of the Companies Act 2014.

Oisín Fanning
Chief Executive Officer

Ewen Ainsworth
Finance Director

26 June 2019

CORPORATE SOCIAL RESPONSIBILITY:

WATER & SCHOOL PROJECTS

San Leon Energy takes its Corporate Social Responsibility in countries in which we have an interest very seriously, and contributes directly to society when possible and where we trust our contributions can have a direct impact on the environment and communities we seek to assist.

As in many parts of the world, some areas of Nigeria have experienced displacement of people and natural disasters. San Leon has helped by contributing food, shelter, clothing and educational and medical support to certain such areas. The Company also supported small women-led enterprises. For example, women were trained in tailoring and were donated sewing machines, as making traditional African clothing is a sustainable business locally.

At the end of 2018, the Company also donated funding for the construction of two new schools and one water supply station in Mbalom, Benue State, and one water supply station in Igwo-gwo, Ollah, Kogi State.

These were commissioned in 2019 and seamstresses, newly trained through our previous support, made the uniforms for the children. In one junior secondary school in Tse-Abayol, Benue State, it is expected fifty young children will begin at the start of the next term.

In another junior primary school in Tse-Achai village, Benue State, more than seventy five pupils left behind an open sided thatched hut, bamboo sticks as seats and no desks and started at a new school with classroom blocks, school uniforms, desks, books and a standard environment for learning.

San Leon has been told it has transformed the lives of children and families impacted by devastating tragedy. We hope, as part of our Corporate Social Responsibility, that we are positively benefitting society and giving optimism, dignity and strength to people trying to rebuild their lives and communities.

We also hope that the relative peace which has returned to the communities will be sustained into the future.


Together as Beneficiaries of Love.

Dear San Leon Energy,

Thank you so very much for your seed of love that has changed the lives of these children and transformed this community. You have moved these school children from a very uncomfortable and deplorable state, where they had bamboo sticks as their seats, their laps as their desks and a thatched roof supported by roughly cut down woods for their classroom to this most magnificent school.

As a matter of fact, only the "thatched space" as you can see was available for the entire children within the age range of 2 to 11. They were all kept together and whatever they could learn from what they were taught, they learnt.

Today, your kind gesture in providing befitting classroom blocks, school uniforms, desks, books and a standard environment for learning by all standards has not just transformed the lives of these Children but has also given this community a beautiful new look. Thank you for transforming lives, thank you for bringing joy and hope to this community.

The commissioning began with a procession from the "thatched space of learning" down to the new school, San Leon Energy's gift to the community amidst celebration and dancing.

May God bless San Leon Energy, Staff and investors for this great work of love.

Fr Emmanuel

Fr Emmanuel

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE ANNUAL REPORT AND THE FINANCIAL STATEMENTS

The Directors are responsible for preparing the annual report and the Group and Company financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare Group and Company financial statements for each financial year. As required by the AIM / ESM Rules, they are required to prepare the Group financial statements in accordance with IFRS as adopted by the EU. The Directors have elected to prepare the Company financial statements in accordance with IFRS as adopted by the EU and as applied in accordance with the Companies Act 2014.

Under company law, the Directors must not approve the Group and Company financial statements unless they are satisfied that they give a true and fair view of the assets, liabilities and financial position of the Group and Company and of the Group's profit or loss for that year.

In preparing each of the Group and Company financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRS as adopted by the EU and as regards the Company, as applied in accordance with the Companies Act 2014;
- assess the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Company or cease operations, or have no realistic alternative but to do so.

The Directors are responsible for keeping adequate accounting records, which disclose with reasonable accuracy at any time the assets, liabilities, financial position and profit or loss of the Company and which enable them to ensure that the financial statements of the Company comply with the provisions of the Companies Act 2014. The Directors are also responsible for taking all reasonable steps to ensure such records are kept by its subsidiaries which enable them to ensure that the financial statements of the Group comply with the provisions of the Companies Act 2014. They are responsible for such internal controls as they determine are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have a general responsibility for safeguarding the assets of the Company and the Group, and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities. The Directors are also responsible for preparing a Directors' report that complies with the requirements of the Companies Act 2014.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the Republic of Ireland governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

On behalf of the board

Oisín Fanning
Director

Ewen Ainsworth
Director

> “I LOOK FORWARD TO UPDATING SHAREHOLDERS WITH NEWS OF THE PLANNED CONTINUED OPERATIONAL ACTIVITY ON OML 18, ITS EFFECT ON PRODUCTION, AND HOW OUR VARIOUS EXPECTED CASH FLOW STREAMS ARE PERFORMING.”

Oisín Fanning
CEO

POSITIVE PERSPECTIVES

SAN LEON ENERGY

San Leon Energy plc
Annual Report and Accounts
2018

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF SAN LEON ENERGY PLC

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

We have audited the Group and Company financial statements of San Leon Energy plc ('the Company') for the year ended 31 December 2018, which comprise the Consolidated Income Statement, the Consolidated Statement of Other Comprehensive Income, the Consolidated and Company Statements of Changes in Equity, the Consolidated and Company Statements of Financial Position, the Consolidated and Company Statements of Cash Flows and related notes, including the summary of significant accounting policies set out in note 1.

The financial reporting framework that has been applied in their preparation is Irish Law and International Financial Reporting Standards (IFRS) as adopted by the European Union and, as regards the Company financial statements, as applied in accordance with the provisions of the Companies Act 2014.

In our opinion:

- the financial statements give a true and fair view of the assets, liabilities and financial position of the Group and Company as at 31 December 2018 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRS as adopted by the European Union;
- the Company financial statements have been properly prepared in accordance with IFRS as adopted by the European Union, as applied in accordance with the provisions of the Companies Act 2014; and
- the Group and Company financial statements have been properly prepared in accordance with the requirements of the Companies Act 2014.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (Ireland) (ISAs (Ireland)) and applicable law. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the audit of the financial statements* section of our report. We have fulfilled our ethical responsibilities under, and we remained independent of the Group in accordance with ethical requirements that are relevant to our audit of financial statements in Ireland, including the Ethical Standard issued by the Irish Auditing and Accounting Supervisory Authority (IAASA), as applied to listed entities.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of matter – uncertainty relating to valuation of investment in Midwestern Leon Petroleum Limited ("MLPL")

We draw attention to notes 13 (ii) and 17 (i) to the financial statements concerning the uncertainty associated with the assessment of the Group's investment in and related Loan Notes due from MLPL. The Group's investment in and related Loan Notes due from MLPL are underpinned by the OML 18 oil field in Nigeria. Notwithstanding the performance of the Loan Notes in the year, there remains significant uncertainty in relation to the quantum and timing of future cashflows, and this uncertainty in turn impacts the value of Group's investment in MLPL and the recoverability of the Group and Company's loans due from MLPL. The consequences of the significant uncertainty in relation to the Group and Company's Loan Notes due from MLPL, impact on the Group and Company's assessment of their ability to continue as a going concern.

Key audit matters: our assessment of risks of material misstatement

Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We continue to perform procedures over going concern including review of the cashflow forecast. However, given the MLPL Loan Notes payments received in the period and the disclosed cash position at year end, we have not assessed this as one of the most significant risks in our current year audit and, therefore, it is not separately identified in our report this year.

In arriving at our audit opinion above, the key audit matters, in decreasing order of audit significance, were as follows:

Key audit matter	How the matter was addressed in our audit
Valuation of Midwestern Leon Petroleum Limited ("MLPL") Loan Notes and equity interest (refer to pages 81-88 (accounting policy) and pages 96 to 97 and 102 to 105 (financial disclosures))	
The OML 18 transaction (the MLPL Loan Notes and equity interest) accounts for San Leon's most significant asset. In line with the relevant accounting standards, management have ascertained fair values for the Loan Notes €112.4 million (2017: €134.8 million) and the equity interest €48.1 million (2017: €58.3 million) at 31 December 2018. There are significant estimates and judgments involved in determining the fair value of both the Loan Notes and equity interest in MLPL. This is both a Group and Company audit matter.	Our audit procedures included, but were not limited to: • Consideration of management's fair value assessment models and accounting papers highlighting the key assumptions (forecast cash flows and discount rate) supporting the carrying amount of the equity interest and Loan Notes investment in MLPL. • Consideration of the historical accuracy of the Group's cashflow forecast by comparing the prior period forecasted cash receipts from the MLPL loan note to actual receipts in 2018 and to the date of signing the financial statements. • Comparison of the Group's forecasted income from the MLPL loan note to MLPL's own cashflow forecasts to ensure they were consistent. • Assessment of the arithmetic accuracy of the calculations underpinning the valuation and accounting for the Loan Notes and equity accounted interests. • Recalculation of the fair value of the loan based on management's assumptions. • Inspection of correspondence with the Group's legal advisers which considers the manner and classification of Loan Notes payments and whether there was a breach of the instrument's terms.

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF SAN LEON ENERGY PLC CONTINUED

Key audit matter	How the matter was addressed in our audit
Valuation of Midwestern Leon Petroleum Limited ("MLPL") Loan Notes and equity interest (continued)	
	• Discussion and inspection of supporting work papers of the MLPL component auditor which supports the component auditor's opinion to us on the MLPL audited consolidated financial statements. • Assessment of impact of transition to IFRS 9 Financial Instruments. We found no material misstatements arising from our procedures, however based on evidence obtained, we note that the recoverability of the Group's investment (Loan Notes and equity investment) in MLPL is dependent on the ability of the OML 18 operator, Eroton, to make distributions which remains subject to a number of restrictions. This is outside of the control of San Leon Energy plc and reflects a material uncertainty for the Group and Company. Therefore we have included an emphasis of matter in relation to the carrying value of the Group's investment in MLPL in our audit opinion.
Valuation of 4.5% Net Profit Interest (NPI) on the Barryroe oil field (refer to pages 81-88 (accounting policy) and pages 102-106 (financial disclosures))	
The risk relates to the assessment of the carrying value of the Barryroe NPI financial asset of €44.7 million as at 31 December 2018 (2017: €42.6 million). Assessing the fair value of the Group's NPI in Barryroe continues to be subject to complexity and significant judgment. This is both a Group and Company audit matter.	Our audit procedures included, but were not limited to: • Consideration of management's and the Board's accounting papers setting out their assessment of the carrying value of the financial asset. • Assessment of the key management assumptions, oil prices, discount rate and other external inputs which underpin their valuation model against industry standards, current market prices and publicly available information. • Consideration of the most recent available third party and independent information available to management, including developments in relation to the farm out of the Barryroe field. • Recalculation of management's estimate of the fair value of the asset. • Assessment of the required accounting disclosures. • Assessment of impact of transition to IFRS 9 *Financial Instruments*. The fair value of the Barryroe NPI asset is estimated by management to be €44.7 million at 31 December 2018 (2017: €42.6 million) based on a fair value model produced by management. We consider the assumptions used in the model to be supportive of the valuation. These assumptions are appropriately disclosed.

Our application of materiality and an overview of the scope of our audit

Materiality for the Group and Company financial statements as a whole was set at €1,265,000 (2017: €1,325,000). This has been calculated using a benchmark of Group and Company total assets (of which it represents 0.5% (2017: 0.5%)), which we have determined, in our professional judgement, to be one of the principal benchmarks within the financial statements relevant to the members of the Company in assessing financial performance.

We report to the Audit Committee all corrected and uncorrected misstatements we identified through our audit in excess of €60,000 (2017: €65,000), in addition to other audit misstatements below that threshold that we believe warranted reporting on qualitative grounds. We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations in forming our opinion.

The accounting records of the Company and its subsidiaries are maintained in Ireland. The accounting records of the equity accounted investment in MLPL are maintained in Nigeria. 100% of total group revenue, 100% of the group's loss before taxation and 100% of group total assets were subject to audit for group reporting purposes.

For the two significant components in the scope of our audit, the parent Company San Leon Energy plc (audited by the Group team) and the equity accounted investment MLPL (audited by the component auditor), the Group audit team considered aggregation risk in setting component materiality having regard to the size and risk profile of the components across the Group. The Group audit team instructed the component auditor as to the significant areas to be covered including the relevant risks detailed above and the information to be reported back.

The Group audit team met with and held telephone conference calls with the component auditors of the MLPL component to assess the audit risk and strategy and work undertaken. We also completed a review of the audit files of the MLPL component auditors. In our discussions, the matters subject to audit and the findings reported to the Group audit team were discussed in more detail and any further work required by the Group audit team was then performed by the component auditors.

We have nothing to report on going concern

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least twelve months from the date of approval of the financial statements. We have nothing to report in these respects.

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF SAN LEON ENERGY PLC
CONTINUED

Other information

The directors are responsible for the other information presented in the Annual Report together with the financial statements. The other information comprises the information included in the directors' report, group overview report, strategic report and governance report. The financial statements and our auditor's report thereon do not comprise part of 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 as explicitly stated below, any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work we have not identified material misstatements in the other information.

Based solely on our work on the other information, we report that:

- we have not identified material misstatements in the directors' report;
- in our opinion, the information given in the directors' report is consistent with the financial statements;
- in our opinion, the directors' report has been prepared in accordance with the Companies Act 2014.

Our opinions on other matters prescribed the Companies Act 2014 are unmodified

We have obtained all the information and explanations which we consider necessary for the purpose of our audit.

In our opinion, the accounting records of the Company were sufficient to permit the financial statements to be readily and properly audited and the Company's financial statements are in agreement with the accounting records.

We have nothing to report on other matters on which we are required to report by exception

The Companies Act 2014 requires us to report to you if, in our opinion, the disclosures of directors' remuneration and transactions required by Sections 305 to 312 of the Act are not made.

Respective responsibilities and restrictions on use

Directors' responsibilities

As explained more fully in their statement set out on page 48, the directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; 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; assessing the Group and Parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Group or the Parent Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (Ireland) 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 fuller description of our responsibilities is provided on IAASA's website at https://www.iaasa.ie/getmedia/b2389013-1cf6-458b-9b8f-a98202dc9c3a/Description_of_auditors_responsiblities_for_audit.pdf.

The purpose of our audit work and to whom we owe our responsibilities

Our report is made solely to the Company's members, as a body, in accordance with Section 391 of the Companies Act 2014. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Niall Savage
for and on behalf of
KPMG
Chartered Accountants, Statutory Audit Firm
1 Stokes Place
St. Stephen's Green
Dublin 2

26 June 2019

CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2018

	Notes	**2018 €'000**	2017 €'000
Continuing operations			
Revenue from contracts with customers	2	**173**	324
Cost of sales		**(83)**	(146)
Gross profit		**90**	178
Share of loss of equity accounted investments	13	**(12,441)**	(7,079)
Administrative expenses		**(14,208)**	(16,952)
Profit on disposal of subsidiaries	4	**379**	28
Impairment / write off of exploration and evaluation assets	12	**(2,685)**	(42,783)
Impairment of assets held for sale	22	**–**	(3,136)
Decommissioning of wells	26	**424**	235
Arbitration award	26	**–**	(1,948)
Other income	3	**–**	95
Expected credit losses	8	**(3,085)**	(5,276)
Provision for bank guarantee	20	**–**	(1,167)
Loss from operating activities		**(31,526)**	(77,805)
Finance expense	6	**(2,111)**	(6,576)
Finance income	7	**38,499**	16,224
Expected credit losses	8	**3,679**	–
Fair value movements in financial assets	17	**1,993**	–
Impairment of financial assets	17	**–**	(3,171)
Profit / (loss) before income tax		**10,534**	(71,328)
Income tax	10	**(3,299)**	(2,199)
Profit / (loss) for the financial year		**7,235**	(73,527)
Profit / (loss) per share (cent) – total			
Basic profit / (loss) per share	11	**1.43**	(16.18)
Diluted profit / (loss) per share	11	**1.43**	(16.15)

CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2018

	Notes	**2018 €'000**	2017 €'000
Profit / (loss) for the year		**7,235**	(73,527)
Items that may be reclassified subsequently to profit or loss			
Foreign currency translation differences – subsidiaries	28	**183**	(627)
Foreign currency translation differences – joint venture	13 / 28	**2,241**	(9,007)
Recycling of currency translation reserve on disposal of subsidiaries	28	**(34)**	(28)
Fair value movements in financial assets	17	**104**	(5,896)
Deferred tax on fair value movements in financial assets	31	**(35)**	1,989
Total other comprehensive income		**2,459**	(13,569)
Total comprehensive profit / (loss) for the year		**9,694**	(87,096)

The accompanying notes on pages 71-134 form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2018

	Share capital reserve €'000	Share premium reserve €'000
2017		
Balance at 1 January 2017	130,957	401,503
Total comprehensive income		
Loss for the year	–	–
Other comprehensive income		
Foreign currency translation differences – subsidiaries	–	–
Foreign currency translation differences – joint venture (Note 13)	–	–
Recycling of currency translation reserve on disposal of subsidiaries	–	–
Fair value movements in financial assets	–	–
Deferred tax on fair value movements in financial assets	–	–
Total comprehensive income for year	–	–
Transactions with owners recognised directly in equity		
Contributions by and distributions to owners		
Issue of shares for cash (Note 27)	439	12,008
Issue of shares – debt for equity (Note 27)	63	2,217
Effect of share options exercised (Note 27)	70	2,321
Share based payment	–	–
Effect of share options cancelled	–	–
Total transactions with owners	572	16,546
Balance at 31 December 2017	**131,529**	**418,049**

Currency translation reserve €'000	Share based payment reserve €'000	Shares to be issued reserve €'000	Fair value reserve €'000	Retained earnings €'000	Attributable to equity holders in Group €'000 2017
40	19,424	1,269	4,017	(263,273)	293,937
–	–	–	–	(73,527)	(73,527)
(627)	–	–	–	–	(627)
(9,007)	–	–	–	–	(9,007)
(28)	–	–	–	–	(28)
–	–	–	(5,896)	–	(5,896)
–	–	–	1,989	–	1,989
(9,662)	–	–	(3,907)	(73,527)	(87,096)
–	–	–	–	–	12,447
–	–	–	–	–	2,280
–	(1,906)	–	–	1,906	2,391
–	570	812	–	–	1,382
–	(1,936)	–	–	1,936	–
–	(3,272)	812	–	3,842	18,500
(9,622)	**16,152**	**2,081**	**110**	**(332,958)**	**225,341**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2018 CONTINUED

	Share capital reserve €'000	Share premium reserve €'000
2018		
Balance as at 1 January 2018	131,529	418,049
Restatements:		
IFRS 9: Expected credit loss provision[1] (a)	–	–
IFRS 9: Reclassification[1] (a)	–	–
Transfer to share based payment reserve from shares to be issued reserve[1] (b)	–	–
Other share based payment reserve adjustment[1] (c)	–	–
Balance as at 1 January 2018 (restated)[1]	131,529	418,049
Total comprehensive income for year		
Profit for the year	–	–
Other comprehensive income		
Foreign currency translation differences – subsidiaries	–	–
Foreign currency translation differences – joint venture (Note 13)	–	–
Recycling of currency translation reserve on disposal of subsidiaries	–	–
Fair value movements in financial assets	–	–
Deferred tax on fair value movements in financial assets	–	–
Total comprehensive income for year	–	–
Transactions with owners recognised directly in equity		
Contributions by and distributions to owners		
Share based payment	–	–
Effect of share options cancelled	–	–
Total transactions with owners	–	–
Balance at 31 December 2018	**131,529**	**418,049**

1 The balance as at 1 January 2018 has been restated to account for the following items:

a) On the adoption of IFRS 9 (Financial Instruments) on 1 January 2018 transitional adjustments were reflected in the opening equity position of the Group. This includes €1.2m in respect of the reclassification of "available for sale" assets to assets held at "fair value through profit and loss" reflecting cumulative historical changes in fair value that had been recorded in equity and is recorded as a credit to opening retained earnings. In addition, an opening adjustment to retained earnings of €8.1m has been made reflecting the impact of transition to IFRS 9 on the carrying values of financial assets and related credit loss provisions held.

There was also a €1.1m reclassification from the Fair value reserve to Retained earnings in respect of "available for sale" assets which the Group deems to have a €nil value and is recorded as a debit to opening retained earnings.

b) An amount of €1.0m has been transferred from the Share based payment reserve to the Shares to be issued reserve in relation to the value of shares issued in lieu of salaries. There is no balance sheet impact on assets or liabilities and therefore a restatement of the balance sheet is not required.

c) An amount of €0.1m has been transferred from the Share based payment reserve to Retained earnings and an amount of €0.1m has been transferred from the Shares to be issued reserve to Retained earnings. There is no balance sheet impact on assets or liabilities and therefore a restatement of the balance sheet is not required.

The accompanying notes on pages 71-134 form an integral part of these financial statements.

	Currency translation reserve €'000	Share based payment reserve €'000	Shares to be issued reserve €'000	Fair value reserve €'000	Retained earnings €'000	Attributable to equity holders in Group €'000
	(9,622)	16,152	2,081	110	(332,958)	225,341
	–	–	–	–	(8,071)	(8,071)
	–	–	–	(110)	110	–
	–	993	(993)	–	–	–
	–	127	85	–	(212)	–
	(9,622)	17,272	1,173	–	(341,131)	217,270
	–	–	–	–	7,235	7,235
	183	–	–	–	–	183
	2,241	–	–	–	–	2,241
	(34)	–	–	–	–	(34)
	–	–	–	104	–	104
	–	–	–	(35)	–	(35)
	2,390	–	–	69	7,235	9,694
	–	454	660	–	–	1,114
	–	(4,647)	–	–	4,647	–
	–	(4,193)	660	–	4,647	1,114
	(7,232)	**13,079**	**1,833**	**69**	**(329,249)**	**228,078**

COMPANY STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2018

	Share capital €'000	Share premium €'000	Share based payment reserve €'000	Shares to be issued reserve €'000	Fair value reserve €'000	Retained earnings €'000	Total equity €'000
2017							
Balance as at 1 January 2017	130,957	401,503	19,424	1,269	5,135	(333,965)	224,323
Total comprehensive income							
Loss for the year	–	–	–	–	–	(51,940)	(51,940)
Fair value movement in financial asset	–	–	–	–	(5,896)	–	(5,896)
Deferred tax on fair value movements in financial assets	–	–	–	–	1,989	–	1,989
Total comprehensive income for the year	–	–	–	–	(3,907)	(51,940)	(55,847)
Transactions with owners recognised directly in equity							
Contributions by and distributions to owners							
Issue of shares for cash (Note 27)	439	12,008	–	–	–	–	12,447
Issue of shares – debt for equity (Note 27)	63	2,217	–	–	–	–	2,280
Effect of share options exercised	70	2,321	(1,906)	–	–	1,906	2,391
Share based payment	–	–	570	812	–	–	1,382
Effect of share options cancelled	–	–	(1,936)	–	–	1,936	–
Total transactions with owners	572	16,546	(3,272)	812	–	3,842	18,500
Balance at 31 December 2017	**131,529**	**418,049**	**16,152**	**2,081**	**1,228**	**(382,063)**	**186,976**

	Share capital €'000	Share premium €'000	Share based payment reserve €'000	Shares to be issued reserve €'000	Fair value reserve €'000	Retained earnings €'000	Total equity €'000
2018							
Balance as at 1 January 2018	**131,529**	**418,049**	**16,152**	**2,081**	**1,228**	**(382,063)**	**186,976**
Restatements:							
IFRS 9: Expected credit loss provision[1] (a)	–	–	–	–	–	(8,071)	(8,071)
IFRS 9: Reclassification[1] (a)	–	–	–	–	(1,228)	1,228	–
Transfer to share based payment reserve from shares to be issued reserve[1] (b)	–	–	993	(993)	–	–	–
Other share based payment reserve adjustment[1] (c)	–	–	127	85	–	(212)	–
Balance as at 1 January 2018 (restated)[1]	131,529	418,049	17,272	1,173	–	(389,118)	178,905
Total comprehensive income							
Profit for the year	–	–	–	–	–	21,049	21,049
Fair value movements in financial assets	–	–	–	–	104	–	104
Deferred tax on fair value movements in financial assets	–	–	–	–	(35)	–	(35)
Total comprehensive income for the year	–	–	–	–	**69**	**21,049**	**21,118**
Transactions with owners recognised directly in equity							
Contributions by and distributions to owners							
Share based payment	–	–	454	660	–	–	1,114
Effect of share options cancelled	–	–	(4,647)	–	–	4,647	–
Total transactions with owners	–	–	(4,193)	660	–	4,647	1,114
Balance at 31 December 2018	**131,529**	**418,049**	**13,079**	**1,833**	**69**	**(363,422)**	**201,137**

1 The balance as at 1 January 2018 has been restated to account for the following items:

a) On the adoption of IFRS 9 (Financial Instruments) on 1 January 2018 transitional adjustments were reflected in the opening equity position of the company. This includes €2.3m in respect of the reclassification of "available for sale" assets to assets held at "fair value through profit and loss" reflecting cumulative historical changes in fair value that had been recorded in equity and is recorded as a credit to opening retained earnings. In addition, an opening adjustment to retained earnings of €8.1m has been made reflecting the impact of transition to IFRS 9 on the carrying values of financial assets and related credit loss provisions held.

There was also a €1.1m reclassification from the Fair value reserve to Retained earnings in respect of "available for sale" assets which the company deems to have a €nil value and is recorded as a debit to opening retained earnings.

b) An amount of €1.0m has been transferred from the Share based payment reserve to the Shares to be issued reserve in relation to the value of shares issued in lieu of salaries. There is no balance sheet impact on assets or liabilities and therefore a restatement of the balance sheet is not required.

c) An amount of €0.1m has been transferred from the Share based payment reserve to Retained earnings and an amount of €0.1m has been transferred from the Shares to be issued reserve to Retained earnings. There is no balance sheet impact on assets or liabilities and therefore a restatement of the balance sheet is not required.

The accompanying notes on pages 71-134 form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2018

	Notes	**2018 €'000**	2017 €'000
Assets			
Non-current assets			
Intangible assets	12	**–**	2,501
Equity accounted investments	13	**48,096**	58,296
Property, plant & equipment	14	**1,715**	2,398
Financial assets	17	**109,062**	117,901
Other non-current assets	15	**180**	180
		159,053	181,276
Current assets			
Inventory	18	**237**	282
Trade and other receivables	19	**2,132**	4,347
Other financial assets	20	**–**	–
Financial assets	17	**50,315**	61,785
Cash and cash equivalents	21	**35,600**	8,131
Assets classified as held for sale	22	**–**	–
		88,284	74,545
Total assets		**247,337**	255,821
Equity and liabilities			
Equity			
Called up share capital	27	**131,529**	131,529
Share premium account	27	**418,049**	418,049
Share based payments reserve	28 / 29	**13,079**	16,152
Shares to be issued reserve		**1,833**	2,081
Currency translation reserve	28	**(7,232)**	(9,622)
Fair value reserve		**69**	110
Retained earnings		**(329,249)**	(332,958)
Total equity attributable to equity shareholders		**228,078**	225,341
Non-current liabilities			
Derivative	24	**575**	426
Deferred tax liabilities	31	**10,834**	7,538
		11,409	7,964
Current liabilities			
Trade and other payables	23	**7,186**	15,807
Loans and borrowings	25	**–**	4,146
Provisions	26	**664**	1,563
Liabilities classified as held for sale	22	**–**	1,000
		7,850	22,516
Total liabilities		**19,259**	30,480
Total equity and liabilities		**247,337**	255,821

The accompanying notes on pages 71-134 form an integral part of these financial statements.

Oisín Fanning
Director

Ewen Ainsworth
Director

26 June 2019

COMPANY STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2018

	Notes	2018 €'000	2017 €'000
Assets			
Property, plant & equipment	14	**40**	–
Intangible assets	12	**–**	–
Financial Assets	17	**109,062**	117,901
Financial assets – investment in subsidiaries	16	**27,545**	30,226
		136,647	148,127
Current assets			
Trade and other receivables	19	**4,289**	2,993
Financial assets	17	**50,315**	61,785
Cash and cash equivalents	21	**35,092**	7,816
		89,696	72,594
Total assets		**226,343**	220,721
Equity and liabilities			
Equity			
Called up share capital	27	**131,529**	131,529
Share premium account	27	**418,049**	418,049
Share based payments reserve	28 / 29	**13,079**	16,152
Shares to be issued reserve		**1,833**	2,081
Fair value reserve		**69**	1,228
Retained earnings		**(363,422)**	(382,063)
Attributable to equity shareholders		**201,137**	186,976
Non-current liabilities			
Derivative	24	**575**	426
Deferred tax liabilities	31	**10,861**	7,572
		11,436	7,998
Current liabilities			
Trade and other payables	23	**13,770**	21,601
Loans and borrowings	25	**–**	4,146
		13,770	25,747
Total liabilities		**25,206**	33,745
Total equity and liabilities		**226,343**	220,721

The accompanying notes on pages 71-134 form an integral part of these financial statements.

Oisín Fanning
Director

Ewen Ainsworth
Director

26 June 2019

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2018

	Notes	**2018 €'000**	2017 €'000
Cash flows from operating activities			
Profit / (loss) for the year – continuing operations		**7,235**	(73,527)
Adjustments for:			
Depletion and depreciation	14	**742**	782
Finance expense	6	**2,111**	25,477
Finance income	7	**(38,499)**	(35,125)
Share based payments charge		**1,114**	1,382
Foreign exchange		**(547)**	(1,540)
Income tax	10	**3,299**	2,199
Impairment of exploration and evaluation assets – continuing operations	12	**2,685**	42,783
Impairment of financial assets		**–**	3,171
Impairment of assets held for sale	22	**–**	3,136
Provision for bank guarantee	20	**–**	1,167
Expected credit losses	8	**(594)**	5,276
Other income		**–**	(95)
Arbitration award	26	**–**	1,948
Profit on disposal of subsidiaries	4	**(384)**	–
Decommissioning costs	26	**(424)**	(235)
Decommissioning payments	26	**(433)**	–
Fair value movements in financial assets	17	**(1,993)**	–
Decrease / (increase) in inventory		**44**	(29)
Decrease / (increase) in trade and other receivables		**(115)**	2,365
Increase / (decrease) in trade and other payables		**(7,631)**	3,188
Movement in other non-current assets	15	**–**	77
Share of loss of equity-accounted investments	13	**12,441**	7,079
Tax paid		**(47)**	(4)
Net cash outflow from operating activities		**(20,996)**	(10,525)
Cash flows from investing activities			
Expenditure on exploration and evaluation assets	12	**(184)**	(485)
Arbitration payment		**–**	(23,906)
Purchase of property, plant and equipment	14	**(66)**	144
Expenditure on held for sale asset		**–**	(583)
Proceeds on sale of held for sale assets	13	**–**	95
OML 18 Loan Notes repayments received	17	**56,423**	34,277
Proceeds of financial investments and investment income	17	**–**	31
Net cash inflow from investing activities		**56,173**	9,573

	Notes	2018 €'000	2017 €'000
Cash flows from financing activities			
Proceeds from issue of shares		**–**	14,840
Loans advanced	25	**400**	–
Proceeds from drawdown of other loans		**–**	20,228
Repayment of other loans	25	**(4,565)**	(19,455)
Dissenting shareholder payment	26	**(42)**	(1,716)
Loans issued to Directors	32	**(632)**	–
Loans repaid to Directors	32	**(1,669)**	(371)
Loans issued by Directors		**–**	1,692
Interest on Directors loan	7	**2**	–
Interest and investment income received	7	**88**	9
Interest and arrangement fees paid	6	**(1,963)**	(6,405)
Net cash (outflow) / inflow from financing activities		**(8,381)**	8,822
Net increase in cash and cash equivalents		**26,796**	7,870
Effect of foreign exchange fluctuation on cash and cash equivalents		**673**	84
Cash and cash equivalents at start of year	21	**8,131**	177
Cash and cash equivalents at end of year	21	**35,600**	8,131

The accompanying notes on pages 71-134 form an integral part of these financial statements.

COMPANY STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2018

	Notes	**2018 €'000**	2017 €'000
Cash flows from operating activities			
Profit / (loss) for the year		**21,046**	(51,940)
Adjustments for:			
Depletion and depreciation	14	**1**	–
Finance income	7	**(38,499)**	(34,619)
Finance expense		**2,107**	25,482
Share based payments charge		**454**	571
Impairment of investment in subsidiaries and amounts due from group undertakings		**5,400**	31,354
Impairment of financial assets		**–**	3,171
Impairment of exploration and evaluation assets		**–**	9,020
Fair value movements in financial assets	17	**(1,993)**	–
Expected credit losses	8	**(3,679)**	–
Provision for other debtors		**–**	1,668
Foreign exchange		**(631)**	(576)
Income tax		**3,233**	1,924
Decrease in trade and other receivables		**(107)**	890
Increase / (decrease) in trade and other payables		**(3,883)**	2,792
Tax (paid) / received		**(36)**	19
Net cash outflow from operating activities		**(16,587)**	(10,244)
Cash flows from investing activities			
Advances to subsidiary companies		**(4,836)**	(26,718)
Decrease / (increase) in restricted cash		**–**	–
OML 18 Production Arrangement Loan Notes	17	**56,423**	34,277
Expenditure on exploration and evaluation assets		**–**	–
Purchase of property, plant and equipment	14	**(41)**	–
Proceeds of financial investments and investment income	17	**–**	31
Net cash inflow from investing activities		**51,546**	7,590
Cash flows from financing activities			
Proceeds of issue of shares		**–**	14,840
Loans advanced	25	**400**	–
Proceeds from drawdown of other loans		**–**	20,228
Repayment of other loans	25	**(4,565)**	(19,455)
Loans issued to Directors	32	**(632)**	–
Loans repaid to Directors	32	**(1,669)**	(371)
Loans issued by Directors		**–**	1,692
Interest on Directors loan	7	**2**	–
Interest and arrangement fees paid		**(1,959)**	(6,410)
Interest and investment income received	7	**88**	–
Net cash (outflow) / inflow from financing activities		**(8,335)**	10,524
Net increase in cash and cash equivalents		**26,624**	7,870
Effect of foreign exchange fluctuation on cash and cash equivalents		**652**	(55)
Cash and cash equivalents at start of year	21	**7,816**	1
Cash and cash equivalents at end of year	21	**35,092**	7,816

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

1. ACCOUNTING POLICIES

San Leon Energy plc ("the Company") is a company incorporated and domiciled in the Republic of Ireland. The Company is listed on the Alternative Investments Market ("AIM") of the London Stock Exchange. The Group financial statements consolidate those of the Company and its subsidiaries (together referred to as the "Group"). The registered office address is 1st Floor, Wilton Park House, Wilton Place, Dublin 2.

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements.

Statement of compliance

As required by AIM and ESM rules and permitted by Company Law, the Group financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the EU. The individual financial statements of the Company (Company financial statements) have been prepared in accordance with IFRS as adopted by the EU and as applied in accordance with the Companies Act 2014 which permits a Company that publishes its Company and Group financial statements together, to take advantage of the exemption in Section 304 of the Companies Act 2014, from presenting to its members its Company statement of comprehensive income and related notes that form part of the approved Company financial statements. The IFRS adopted by the EU as applied by the Company and the Group in the preparation of these financial statements are those that were effective for accounting periods commencing on or before 1 January 2018 or were early adopted as indicated below.

New standards required by EU companies for the year ended 31 December 2018

The following new standards and amendments were adopted by the Group and the Company for the first time in the current financial reporting period.

New standards and interpretations effective that were adopted

Standard	IASB effective date	EU effective date
Annual Improvements to IFRS 2014-2016 Cycle (Amendments to IFRS 1 First time Adoption of IFRSs and IAS 28 Investments in Associates and Joint Ventures) (issued on 8 December 2016)	1 January 2018	1 January 2018
IFRS 9 Financial Instruments (24 July 2014)	1 January 2018	1 January 2018
Amendments to IFRS 4: Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (issued 12 December 2016)	1 January 2018	1 January 2018
IFRS 15: Revenue from contracts with customers (Note – including amendments to IFRS 15: Effective date of IFRS 15 (11 September 2015) and clarifications to IFRS 15 (12 April 2016))	1 January 2018	1 January 2018
Amendments to IFRS 2: Classification and measurement of share-based payment transactions (20 June 2016)	1 January 2018	1 January 2018
IFRIC Interpretation 22: Foreign Currency Transactions and Advance Consideration (issued December 2016)	1 January 2018	1 January 2018
Amendments to IAS 40: Transfers of Investment Property (issued December 2016)	1 January 2018	1 January 2018

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018
CONTINUED

1. ACCOUNTING POLICIES CONTINUED

The Group has initially applied IFRS 9 (see below) from 1 January 2018. The other standards listed above, are also effective from 1 January 2018 but they do not have a material effect on the Group's financial statements.

Due to the transition methods chosen by the Group in applying IFRS 9, comparative information throughout these financial statements has not been restated to reflect the requirements of the new standard.

The effect of initially applying this standard is an increase in impairment losses recognised on financial assets (see below). Also, a portion of reserves for available for sale assets, recognised in previous periods, have been reclassified from the Fair value reserve to Retained earnings under IFRS 9.

IFRS 9 Financial Instruments

i. Impact on adoption of IFRS 9

IFRS 9 sets out requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces IAS 39 Financial Instruments: Recognition and Measurement.

Additionally, the Group has adopted consequential amendments to IFRS 7 Financial Instruments: Disclosures that are applied to disclosures about 2018 but have not been generally applied to comparative information.

The following tables summarise the impact, net of tax, of transition to IFRS 9 on the opening balance of reserves, retained earnings (for a description of the transition method, see (iv)).

Impact of adopting IFRS 9 on opening balances

Group & Company	Reclassification FVTPL €'000	Expected credit loss provision €'000
Retained earnings		
Recognition of expected credit losses under IFRS 9	–	(8,071)
Reclassification from available for sale	110	–
Impact at 1 January 2018	110	(8,071)

1. ACCOUNTING POLICIES CONTINUED

ii. Classification and measurement of financial assets and financial liabilities
IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, fair value through other comprehensive income ("FVOCI") and fair value through profit and loss ("FVTPL"). The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. IFRS 9 eliminates the previous IAS 39 categories of held to maturity, loans and receivables and available for sale. Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never separated. Instead, the hybrid financial instrument as a whole is assessed for classification.

IFRS 9 largely retains the existing requirements in IAS 39 for the classification and measurement of financial liabilities.

The adoption of IFRS 9 has not had a significant effect on the Group's accounting policies related to financial liabilities and derivative financial instruments.

The following table and the accompanying notes below explain the original measurement categories under IAS 39 and the new measurement categories under IFRS 9 for each class of the Group's financial assets and financial liabilities as at 1 January 2018.

Group	Note	Original classification under IAS 39	New classification under IFRS 9	Original carrying amount under IAS 39 €'000	New carrying amount under IFRS 9 €'000
Financial assets					
OML 18	(a)	Loans and receivables	Amortised cost	134,825	126,754
Barryroe 4.5% net profit interest	(b)	Available-for-sale	FVTPL	42,643	42,643
Other non-current assets		Available-for-sale	Amortised cost	180	180
Unquoted shares	(c)	Available-for-sale	FVOCI	2,189	2,189
Quoted shares		Available-for-sale	FVOCI	29	29
Current assets					
Trade and other receivables		Loans and receivables	Amortised cost	4,347	4,347
Cash and cash equivalents		Amortised cost	Amortised cost	8,131	8,131
Non-current liabilities					
Derivative		FVTPL	FVTPL	426	426
Current liabilities					
Trade and other payables		Amortised cost	Amortised cost	15,807	15,807
Loans and borrowings		Amortised cost	Amortised cost	4,146	4,146

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018
CONTINUED

1. ACCOUNTING POLICIES CONTINUED

Company	Note	Original classification under IAS 39	New classification under IFRS 9	Original carrying amount under IAS 39 €'000	New carrying amount under IFRS 9 €'000
Financial assets					
OML 18	(a)	Loans and receivables	Amortised cost	134,825	126,754
Barryroe 4.5% net profit interest	(b)	Available-for-sale	FVTPL	42,643	42,643
Unquoted shares	(c)	Available-for-sale	FVOCI	2,189	2,189
Quoted shares		Available-for-sale	FVOCI	29	29
Current assets					
Trade and other receivables		Loans and receivables	Amortised cost	2,993	2,993
Cash and cash equivalents		Amortised cost	Amortised cost	7,816	7,816
Non-current liabilities					
Derivative		FVTPL	FVTPL	426	426
Current liabilities					
Trade and other payables		Amortised cost	Amortised cost	21,601	21,601
Loans and borrowings		Amortised cost	Amortised cost	4,146	4,146

(a) The OML 18 receivable that was classified as loans and receivables under IAS 39 is now classified at amortised cost. An €8.1 million (US$9.7 million) allowance for impairment over these receivables was recognised in opening retained earnings at 1 January 2018 on transition to IFRS 9.

(b) Under IAS 39, this interest was classified as available-for-sale. The instrument is a debt instrument on which payments determined by the profits of the borrower and are not solely payment of principal and interest. Providence Resources plc has a contractual agreement to pay a share of the profits (the Net Profit Interest or NPI) to the Company. The Company is not required to make any appraisal or development cost cash contribution. This asset has been classified as FVTPL under IFRS 9.

(c) These equity securities represent investments that the Group intends to hold for the long term for strategic purposes. As permitted by IFRS 9, the Group has designated these investments at the date of initial application as measured at FVOCI. Unlike IAS 39, the accumulated fair value reserve related to these investments will never be reclassified to profit or loss.

There were no changes to the original measurement categories under IAS 39 and the new measurement categories under IFRS 9 for financial liabilities as at 1 January 2018.

1. ACCOUNTING POLICIES CONTINUED

iii. Impairment of financial assets
IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' (ECL) model. The new impairment model applies to financial assets measured at amortised cost but not to investments in equity instruments.

Under IFRS 9, credit losses are recognised earlier than under IAS 39. For assets in the scope of the IFRS 9 impairment model, impairment losses are generally expected to increase and become more volatile.

The Group's accounting policies in respect of impairments of financial assets is set out in policy for financial assets and liabilities below.

The Group has determined that the application of IFRS 9's impairment requirements at 1 January 2018 results in an additional allowance for impairment as follows.

	€'000
Loss allowance at 31 December 2017 under IAS 39	**–**
Impairment recognised at 1 January 2018 on OML 18	8,071
Loss allowance at 1 January 2018 under IFRS 9	**8,071**

Further information on the determination of this provision is provided in Note 17.

iv. Transition
Changes in accounting policies resulting from the adoption of IFRS 9 have been applied prospectively, except as described below.

- The Group has used an exemption not to restate comparative information for prior periods with respect to classification and measurement (including impairment) requirements. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are recognised in retained earnings and reserves as at 1 January 2018. Accordingly, the information presented for 2017 does not generally reflect the requirements of IFRS 9, but rather those of IAS 39.
- The following assessments have been made on the basis of the facts and circumstances that existed at the date of initial application:
  - The determination of the business model within which a financial asset is held.
  - The designation and revocation of previous designations of certain financial assets and financial liabilities as measured at FVTPL.
  - The designation of certain investments in equity instruments not held for trading as at FVOCI.
- If an investment in a debt security had low credit risk at the date of initial application of IFRS 9, then the Group has assumed that the credit risk on the asset had not increased significantly since its initial recognition.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018
CONTINUED

1. ACCOUNTING POLICIES CONTINUED

IFRS 15, Revenue from Contracts with Customers

IFRS 15, replaces IAS 18, Revenue and IAS 11, Construction Contracts and related interpretations.

IFRS 15 establishes a five-step model for reporting the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. IFRS15 specifies how and when revenue should be recognised as well as requiring enhanced disclosures. The Group has adopted IFRS15 from 1 January 2018, using the modified retrospective approach and has not restated comparatives for 2017.

The Group used the five-step model to develop an impact assessment framework to assess the impact of IFRS 15 on the Group's revenue transactions. The results of our IFRS 15 assessment framework and contract reviews indicated that the impact of applying IFRS 15 on our consolidated financial statements was not material for the Group and there was no adjustment to retained earnings or material impact on the timing of revenue recognition on application of the new rules at 1 January 2018.

New standards and amendments issued by the IASB but not yet effective

There are a number of new standards, amendments to standards and interpretations that are not yet effective and have not been applied in preparing these consolidated financial statements. These new standards, amendments to standards and interpretations are either not expected to have a material impact on the Group and the Company's financial statements or are still under assessment by the Group and the Company.

The principal new standards, amendments to standards and interpretations are as follows:

Standard	IASB effective date	EU effective date
IFRS 16: Leases (13 January 2016)	1 January 2019	1 January 2019
IFRIC 23 Uncertainty over Income Tax Treatments (issued on 7 June 2017)	1 January 2019	1 January 2019
Amendments to IFRS 9 Prepayment Features with Negative Compensation	1 January 2019	1 January 2019
Amendments to IAS 28: Long-term interests in Associates and Joint Ventures	1 January 2019	1 January 2019
Amendments to IAS 19: Plan amendment, Curtailment or Settlement (8 February 2018)	1 January 2019	1 January 2019
Annual improvements to IFRS Standards 2015-2017 Cycle (issued on 12 December 2017)	1 January 2019	1 January 2019
Amendments to IFRS 3: Business combinations	1 January 2020	Not endorsed but on track
Amendments to IAS 1 and IAS 8: Definitions of material	1 January 2020	Not endorsed but on track
Amendments to references to the Conceptual Framework in IFRS Standards (29 March 2018)	1 January 2020	Not endorsed. No indicative endorsement date provided.
IFRS 17 Insurance Contracts (issued on 18 May 2017)	1 January 2021	Not endorsed. No indicative endorsement date provided.

1. ACCOUNTING POLICIES CONTINUED

New standards that came into effect on 1 January 2019 will be applied in the year ending 31 December 2019, first reporting to include these will be for the period ending 30 June 2019. The Directors do not believe that any of these standards will have a significant impact on Group and Company reporting with the exception of IFRS 16.

IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases for both the lessee and the lessor. For lessees, IFRS 16 eliminates the classification of leases as either operating leases or finance leases and introduces a single lessee accounting model whereby all leases are accounted for as finance leases, with some exemptions for short-term and low-value leases. It also includes an election which permits a lessee not to separate non-lease components (e.g. maintenance) from lease components and instead capitalise both the lease cost and associated non-lease cost. The lessee will recognise a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. All rights of use assets will be measured at the amount of the lease liability on adoption. IFRS 16 is effective for annual periods beginning on or after 1 January 2019, and the Group will apply IFRS 16 from its effective date.

The standard will primarily affect the accounting for the Group and Company's operating leases. The application of IFRS 16 will result in the recognition of additional assets and liabilities in the Group and Company's statements of financial position, and in the Group and Company's income statements it will replace the straight-line operating lease expense with a depreciation charge for the right-of-use asset and an interest expense on the lease liabilities.

The Group has completed an initial assessment of the potential impact of IFRS 16 on its consolidated financial statements. The Group will adopt the new standard by applying the modified retrospective approach and will avail of the recognition exemption for short-term and low-value leases. The Group's non-cancellable operating lease commitments on an undiscounted basis at 31 December 2018 are detailed in Note 30 to the consolidated financial statements of the Group's 2018 annual report and provides an indication of the scale of leases held by the Group.

Based on this initial impact assessment, and the current and group profile, the standard is expected to increase debt by €2.4m and charge against profit of €0.4m for both the Group and Company.

Basis of preparation

The Group and Company financial statements are prepared on the historical cost basis, except for financial assets (net profit interests, quoted shares and unquoted shares), which are carried at fair value, and equity settled share option awards and warrants which are measured at grant date fair value.

Going concern

The Directors have prepared a detailed cash flow forecast for the Group and Company for the period from 1 June 2019 to 31 December 2020.

The principal assumptions underlying the cash flow forecast and the availability of finance to the Group are as follows:

- Following completion of a transaction in 2016, the Company holds €156.6 million (US$174.5 million) of Loan Notes in Midwestern Leon Petroleum Limited (MLPL), which are repayable by MLPL to San Leon. It also holds a 40% shareholding in MLPL. The economic effect of this structure is that San Leon has an initial indirect economic interest of 10.584%. in OML 18. Shareholders will note this is 0.864% higher than the percentage interest anticipated by San Leon at the time of the acquisition in 2016. There have been no further purchases or payments by San Leon but this revised percentage is based on a reassessment and recalculation of the various parties' interests in OML 18 which has resulted in Martwestern's economic interest in Eroton now standing at 98%. The Group will receive cash flows from the Loan Notes in the form of interest and capital repayments. This continued to be the case during 2018 and the basis of the forecast for 2019. To date Loan Note payments totalling €100.1 million (US$116.5 million) have been made on behalf of MLPL. €14.7 million (US$16.5 million) was due on 1 April 2019 under the terms of the Loan Notes and is outstanding. The Group has assumed that it will continue to receive quarterly forecast cash flows during 2019 and 2020 from the Loan Notes and for the purposes of managing the loan, cash flows are allocated to interest or capital repayments in accordance with the terms of the Loan Notes.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018
CONTINUED

1. ACCOUNTING POLICIES CONTINUED

- Income from the provision of drilling technical and management services of €5.3 million (US$6.0 million) during 2019 and 2020.
- The successful Tender Offer by the Company for 50,475,000 Ordinary Shares which were acquired for a total cost of €26.8 million ($US30.5 million) on 23 March 2019.
- Ongoing exploration and administrative expenditure from the Group's existing activities are in line with current expectations and commitments.
- The cash flow forecast reflects the on-going activity across the Group's exploration asset portfolio which is now substantially reduced but does take into account licence commitments and technical team costs where relevant, administrative overhead, other financial commitments and its available financial resources from existing cash balances. The strategy of the Board is to continue to mitigate risk on the Group's exploration portfolio by monetising certain assets through outright/partial disposal of interests or securing farm-in partners on certain projects. The Directors are engaged in on-going discussions with third parties on the potential disposal of a number of the Group's assets which they expect will generate cash resources to assist in financing the Group's activities. Although there is potential for further cash inflows from monetising certain assets through outright/ partial disposal of interests or securing farm-in partners on certain projects, the cash flow projections do not include these supplemental cash inflows.

Given the Group's well understood cost base, the principal uncertainties relate to the quantum and timing of receipt of interest and capital repayments on the Loan Notes with MLPL. It was originally envisaged that the quarterly Loan Note payments due to the Group would be sourced by MLPL from the receipt of dividends through its indirect interest in Eroton via Martwestern. These dividends have not been received and consequently MLPL has entered into loan arrangements in order to be able to make Loan Note payments to the Company. In the absence of the dividend payments MLPL will be reliant on further advances under the loan arrangement and in turn being able to make quarterly Loan Note payments to the Company. The Company has no obligation arising from the loan arrangements entered into by MLPL.

The Directors have concluded, that whilst any quarterly Loan Note payment, if delayed or not received, represents an uncertainty, the receipt of any further Loan Note payment(s) is not required given a cash balance at 24 June 2019 of €11.5 million (US$13.0 million) and the other cashflow forecast assumptions including the €5.3 million (US$6.0 million) from the provision of drilling technical and management services.

Based on its consideration of Group cash flow projections and underlying assumptions outlined above, the Directors have a reasonable expectation that the Group and Company will have adequate resources to continue in operational existence and to discharge its debts as they fall due for the foreseeable future and for a period of at least 12 months from the date of approval of the financial statements.

Accordingly, the Directors continue to adopt the going concern basis of preparation of the financial statements for the year ended 31 December 2018.

1. ACCOUNTING POLICIES CONTINUED

Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). These consolidated financial statements are presented in Euro (€), which is the Company's functional currency and the Group's presentational currency, rounded to the nearest thousand.

Use of estimates and judgements

The preparation of financial statements, in conformity with EU IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected. In particular, significant areas of estimation uncertainty and critical judgements used in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements include:

- Going concern (Note 1)
- Classification of finance income (Note 7)
- Impairment of Investment in subsidiary (Note 16)
- Measurement and recoverability of equity accounted investments (Note 13)
- Measurement and recoverability of financial assets (Note 17)
- Measurement of share-based payments (Note 29)
- Recognition of deferred tax asset for tax losses (Note 31)

Basis of consolidation

The financial information incorporates the financial information of the Company and entities controlled by the Group (its subsidiaries). Control is defined as when the Group is exposed to or has the rights to variable returns from its investment with the entity and has the ability to affect these returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date control commences until the date that control ceases. Where necessary, adjustments are made to the financial information of subsidiaries to bring their accounting policies into line with those used by other members of the Group. Intra-group balances and any unrealised gains and losses or income or expenses arising from intragroup transactions are eliminated in preparing the Group financial statements.

Business combinations and goodwill

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group. Control is defined as when the Group and Company have the rights to variable returns from its investment with the entity and have the ability to affect these returns through its power over the entity. In assessing control, the Group takes into consideration potential voting rights that currently are substantive.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018
CONTINUED

1. ACCOUNTING POLICIES CONTINUED

Acquisitions

The Group and Company measures goodwill at the acquisition date as:

- the fair value of the consideration transferred; plus
- the recognised amount of any non-controlling interests in the acquiree; plus, if the business combination is achieved in stages, the fair value of the existing equity interest in the acquiree; less
- the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

When the excess is negative, a bargain purchase gain is recognised immediately in profit or loss.

Costs related to the acquisition, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

Any contingent consideration payable is recognised at fair value at the acquisition date. If the contingent consideration is classified as equity, it is not re-measured and settlement is accounted for within equity. Otherwise, subsequent changes to the fair value of the contingent consideration are recognised in profit or loss.

Intangible assets – exploration and evaluation assets

Expenditure incurred prior to obtaining the legal rights to explore an area is recognised in profit or loss as incurred. All other expenditure relating to licence acquisition, exploration, evaluation and appraisal of oil and gas interests, including an appropriate share of directly attributable overheads, is capitalised on a licence by licence basis.

Exploration and evaluation assets are carried at cost until the exploration phase is complete or commercial reserves have been discovered. The Group and Company regularly review the carrying amount of exploration and evaluation assets for indicators of impairment and capitalised costs are written off where the carrying amount of assets may not be recoverable. Where commercial reserves have been established and development is approved by the Board, the relevant expenditure is transferred to oil and gas properties following assessment of impairment.

Royalty

Royalty assets are carried at cost less accumulated amortisation. Amortisation is charged in proportion to the current year production based on total estimated production over the life of the field.

1. ACCOUNTING POLICIES CONTINUED

Impairment of non-financial assets

The carrying amounts of the Group's assets are reviewed at each reporting date and, if there is any indication that an asset may be impaired, its recoverable amount is estimated. The recoverable amount is the higher of its fair value less costs to sell and its value in use.

Estimates of impairment are limited to an assessment by the Directors of any events or changes in circumstance that would indicate that the carrying amount of the asset may not be recoverable.

Any impairment loss arising from the review is recognised in profit or loss to the extent the carrying amount of the asset exceeds its recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation. Depreciation is provided at rates calculated to write off the cost less residual value of each asset over its expected useful life. The residual value is the estimated amount that would currently be obtained from disposal of the asset if the asset were already of the age and in the condition expected at the end of its useful life. The annual rate of depreciation for each class of depreciable asset is:

Office equipment	25% Straight line
Motor vehicles	20% Reducing balance
Plant and equipment	20% – 33% Straight line

Jointly controlled operations or assets

The Group has entered into a number of joint arrangements on production and exploration assets that result in jointly controlled assets. The Group accounts for only its share of assets, liabilities, income and expenditure in relation to these jointly controlled assets.

Inventories

Inventories are valued at the lower of cost and net realisable value.

Joint arrangements

The Group has also entered into joint venture arrangements which are operated through joint ventures. The Group accounts for its interest in these entities on an equity basis, with Group share of profit or loss after tax recognised in the Income Statement and its share of Other Comprehensive Income of the joint venture recognised in Other Comprehensive Income.

Financial fixed assets – investment in subsidiaries

Financial fixed assets in the Company Statement of Financial Position consist of investments in subsidiary undertakings and are stated at cost less provision for impairment where applicable.

Financial assets and financial liabilities – Policy applicable from 1 January 2018

i. Recognition and initial measurement
Financial assets are classified at initial recognition and subsequently measured at amortised cost, fair value through other comprehensive income or fair value through profit or loss. The classification of financial assets is determined by the contractual cash flows and where applicable the business model for managing the financial assets.

A financial asset or financial liability is initially measured at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018
CONTINUED

1. ACCOUNTING POLICIES CONTINUED

ii. Classification and subsequent measurement

Financial assets

On initial recognition, a financial asset is classified as measured at: amortised cost; FVOCI – debt investment; FVOCI – equity investment; or FVTPL. Financial assets are not reclassified subsequent to their initial recognition unless the Group changes its business model for managing financial assets.

A financial asset is measured at amortised cost if the objective of the business model is to hold the financial asset in order to collect contractual cash flows and the contractual terms give rise to cash flows that are solely payments of principal and interest. Subsequently the financial asset is measured using the effective interest method less any impairment. The amortised cost is reduced by impairment losses in accordance with Group policy set out below. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss.

The business model in which a financial asset is held is assessed at an individual asset level for assets that are individually material, and otherwise at a portfolio level. Financial assets that are held as part of a long-term strategic investment are considered within a business model to collect contractual cash flows.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Group considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition.

On initial recognition of an equity investment that is not held for trading, the Group may irrevocably elect to present subsequent changes in the investment's fair value in OCI (FVOCI – equity investment). This election is made on an investment-by-investment basis. These assets are subsequently measured at fair value. Dividends are recognised as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses are recognised in OCI and are never reclassified to profit or loss.

All financial assets not classified as measured at amortised cost or FVOCI as described above are measured at FVTPL. This includes all derivative financial assets. These assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognised in profit or loss.

On initial recognition, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Financial liabilities

Financial liabilities are classified as measured at amortised cost or FVTPL. A financial liability is classified as at FVTPL if it is classified as held-for-trading, it is a derivative or it is designated as such on initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognised in profit or loss. Other financial liabilities are subsequently measured at amortised cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognised in profit or loss. Any gain or loss on derecognition is also recognised in profit or loss.

1. ACCOUNTING POLICIES CONTINUED

iii. Impairment
The Group recognises loss allowances for expected credit losses ("ECLs") on financial assets measured at amortised cost.

A provision for 12-month ECL is recognised in respect of low risk assets. A provision for the lifetime ECL is recognised in respect of higher risk assets that are not credit impaired. If an asset is credit impaired, the carrying amount of the asset is reduced by its lifetime ECL.

The 12-month ECL represents the weighted average of credit losses that result from default events on a financial instrument that are possible within the 12 months after the reporting date. This requires a number of outcomes to be considered, a probability assigned to each, and a resulting credit loss applied to each. ECLs are discounted at the effective interest rate of the financial asset.

12-month ECL is determined using market data to benchmark expected credit losses of assets held by the Group against default rates for borrowers with similar attributes. The Group also considers financial forecasts and other forward-looking information of borrowers where is this available. Lifetime ECL is extrapolated from the 12-month ECL methodology, assuming that the periodic risk remains constant over the remaining lifetime unless there is objective evidence otherwise.

At each reporting date, the Group assesses whether financial assets carried at amortised cost and debt securities at FVOCI are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. The Group considers a financial asset to be in default and presumed credit impaired when contractual payments are outstanding 90 days after their due date, unless there is reasonable information that amounts will be recovered; or when the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security including guarantees (if any is held).

The Company has determined that the borrower is likely to meet its credit obligations as evidenced by the preparation of a Competent Persons Report in relation to San Leon's interest in OML 18 and in addition there are no sums due for more than 90 days.

Write-off
The gross carrying amount of a financial asset is written off when the Group has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof. The Group expects no significant recovery from the amount written off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Group's procedures for recovery of amounts due.

iv. Derecognition
The Group derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire.

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

On derecognition of a financial asset or financial liability, the difference between the carrying amount removed or extinguished and the consideration received or paid is recognised in profit or loss.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018
CONTINUED

1. ACCOUNTING POLICIES CONTINUED

Financial assets and financial liabilities – Policy applicable prior to 1 January 2018

i. Recognition and initial measurement
A financial asset or financial liability is initially measured at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue.

ii. Classification and subsequent measurement
Financial assets

Financial assets are classified at initial recognition as either loans and receivables, available for sale, or fair value through profit and loss.

Loans and receivables are held at amortised cost measured using the effective interest method less any impairment. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss.

Available for sale assets are measured at fair value and changes therein, other than impairment losses, interest income and foreign currency differences on debt instruments, are recognised in OCI and accumulated in the fair value reserve. When these assets are derecognised, the gain or loss accumulated in equity is reclassified to profit or loss.

Financial assets at FVTPL are measured at fair value and changes therein, including any interest or dividend income, are recognised in profit or loss.

Financial liabilities

Financial liabilities other than derivatives are classified as measured at amortised cost and subsequently measured at amortised cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognised in profit or loss. Any gain or loss on derecognition is also recognised in profit or loss.

Derivatives are classified as FVTPL and measured at fair value and net gains and losses, including any interest expense, are recognised in profit or loss.

iii. Impairment
Financial assets not classified as at FVTPL are assessed at each reporting date to determine whether there is objective evidence of impairment. An impairment loss is calculated as the difference between an asset's carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss.

When the Group considered that there were no realistic prospects of recovery of the asset, the relevant amounts were written off.

v. Derecognition
The Group derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire.

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

1. ACCOUNTING POLICIES CONTINUED

Decommissioning provision

A provision is made for decommissioning of oil and gas wells. The cost of decommissioning is determined through discounting the amounts expected to be payable to their present value at the date the provision is recognised and reassessed at each reporting date. This amount is regarded as part of the total investment to gain access to economic benefits and consequently capitalised as part of the cost of the asset and the liability is recognised in provisions. Such cost is depleted over the life of the asset on the basis of proven and probable reserves and charged to the Income Statement. The unwinding of the discount is reflected as a finance cost in the Income Statement over the life of the field or well.

Taxation

Income tax expense comprises current and deferred tax. Income tax expense is recognised in the Consolidated Income Statement except to the extent that it relates to items recognised directly in Other Comprehensive Income or equity, in which case it is recognised in Other Comprehensive Income or equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised using the liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of goodwill, the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that they are controlled and probably will not reverse in the foreseeable future. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Foreign currencies

Transactions in foreign currencies are initially translated to the respective functional currencies of Group entities at the exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated to the functional currency at the exchange rates ruling at the reporting date with gains or losses recognised in profit or loss. Non-monetary items are translated using the exchange rates ruling as at the date of the initial transaction.

Foreign currency differences are generally recognised in profit or loss and presented within finance costs. However, foreign currency differences arising from the translation of the following items are recognised in OCI:

- an investment in equity securities designated as at FVOCI (2017: available-for-sale equity investments (except on impairment, in which case foreign currency differences that have been recognised in OCI are reclassified to profit or loss));
- a financial liability designated as a hedge of the net investment in a foreign operation to the extent that the hedge is effective; and
- qualifying cash flow hedges to the extent that the hedges are effective.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018
CONTINUED

1. ACCOUNTING POLICIES CONTINUED

Foreign operations

The assets and liabilities of foreign operations are translated into Euro at the exchange rate at the reporting date and the income and expenses of foreign operations are translated at the actual exchange rates at the date of the transaction or at average exchange rates for the year where this approximates to the actual rate. Exchange differences arising on translation are recognised in Other Comprehensive Income and presented in the foreign currency translation reserve in equity. Details of exchange rates used are set out in Note 33.

Revenue recognition

For the year ended 31 December 2018 the Group used the five-step model as prescribed under IFRS 15 on the Group's revenue transactions. This included the identification of the contract, identification of the performance obligations under same, determination of the transaction price, allocation of the transaction price to performance obligations and recognition of revenue. The point of recognition arises when the Group satisfies a performance obligation by transferring control of a promised seismic processing service to the customer, which could occur over time.

Prior to 1 January 2018 the policy was as follows:

Revenue from the sale of seismic processing was recognised in proportion to the stage of completion of the transaction at the reporting date. The stage of completion was assessed on work in progress reports. Revenue was measured at the fair value of the consideration receivable net of value added tax.

Finance income and expenses

Interest income is accrued on a time basis by reference to the principal on deposit and the effective interest rate applicable.

The 'effective interest rate' is the rate that at initial recognition exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to:

- the gross carrying amount of the financial asset; or
- the amortised cost of the financial liability.

In calculating interest income and expense, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit-impaired) or to the amortised cost of the liability. However, for financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the amortised cost of the financial asset net of impairment provision. If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis.

Interest rate changes are not applied after initial recognition.

Finance expenses comprise interest or finance costs on borrowings and unwinding of any discount on provisions using the effective interest rate.

Share capital

Incremental costs directly attributable to the issue of ordinary shares are recognised as a deduction from equity.

1. ACCOUNTING POLICIES CONTINUED

Share based payments

The Group has applied the requirements of IFRS 2 'share based payments'. The Group issues share options as an incentive to certain key management and staff (including Directors), which are classified as equity settled share based payment awards. The grant date fair value of share options granted to Directors and employees under the Company's share option scheme is recognised as an expense over the vesting period with a corresponding credit to the share based payments reserve. The fair value is measured at grant date and spread over the period during which the awards vest.

The options issued by the Group are subject to both market-based and non-market based vesting conditions. Market conditions are included in the calculation of fair value at the date of the grant. Non-market vesting conditions are not taken into account when estimating the fair value of awards as at grant date; such conditions are taken into account through adjusting the number of the equity instruments that are expected to vest.

The proceeds received will be credited to share capital (nominal value) and share premium when options are converted into ordinary shares.

Where the terms of an equity-settled transaction are modified, an additional expense is recognised for any modification that increases the total fair value of the share-based payment transaction, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

Earnings per share

The Group and the Company presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to equity shareholders of the Company by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, which comprise convertible notes, share options granted to employees and warrants.

Cash and cash equivalents

Cash and cash equivalents comprise of cash at bank and in hand on demand.

Segmental reporting

A segment is a distinguishable component of the Group that is engaged in business activities from which it may earn revenues and incur expenses which is subject to risks and rewards that are different from those of other segments and for which discrete financial information is available.

All operating segments and results are regularly reviewed by the Board of Directors to make decisions about resources to be allocated to each segment and to assess its performance.

Full details of the Group's operating segments all of which are involved in oil and gas exploration and production are set out in Note 2 to the financial statements.

Assets and liabilities held for sale

Non-current assets and liabilities that are expected to be recovered primarily through sale rather than through continuing use are classified as held for sale. Immediately before classification as held for sale, the assets are remeasured in accordance with the Group's accounting policies. Thereafter, the assets are measured at the lower of their carrying amount and fair value less cost to sell. Impairment losses on initial classification as held for sale and subsequent gains or losses on remeasurement are recognised in profit or loss. Gains are not recognised in excess of any cumulative impairment loss.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018
CONTINUED

1. ACCOUNTING POLICIES CONTINUED

Defined contribution pension scheme

The Group operates a defined contribution scheme. All contributions made are recognised in the Income Statement in the period in which they fall due.

Fair value movement

The Group has an established process with respect to the measurement of fair values. The finance team regularly reviews significant unobservable inputs and valuation adjustments. If third party information, such as broker quotes or pricing services, is used to measure fair values, then the valuation team assesses the evidence obtained from the third parties to support the conclusion that such valuations meet the requirements of IFRS, including the level in the fair value hierarchy in which such valuations should be classified.

Significant valuation issues are reported to the Board.

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

For further detail on assumptions made in measuring level 3 fair values see the following notes:

- Note 17 Financial Assets
- Note 24 Derivative

Assets and liabilities measured at fair value (Note 33)

In accordance with IFRS 13, the group discloses its assets and liabilities held at fair value after initial recognition in the following categories: FVOCI – equity instrument and FVTPL.

With the exception of shares held in quoted entities, which are classified as Level 1 items under the fair value hierarchy, all assets and liabilities held at fair value are measured on the basis of inputs classified as Level 3 under the fair value hierarchy on the basis that the inputs underpinning the valuations are not based on observable market data as defined in IFRS 13.

Where derivatives are traded either on exchanges or liquid over-the-counter markets, the Group uses the closing price at the reporting date. Normally, the derivatives entered into by the Group are not traded in active markets. The fair values of these contracts are estimated using a valuation technique that maximises the use of observable market inputs, e.g. market exchange and interest rates. All derivatives entered into by the Group are included in Level 3 and consist of share warrants issued.

2. REVENUE AND SEGMENTAL INFORMATION

Operating segment information is presented on the basis of the geographical areas as detailed below, which represent the financial basis by which the Group manages its operations. The Board of Directors, which has been recognised as the Chief Operating Decision Maker (CODM), regularly receive verbal or written reports at board meetings for each of the segments based on the below criteria which management consider to be appropriate in evaluating segment performance relative to other entities that operate in the industry.

Revenue and Segmental Information

2018	**Poland €'000**	**Morocco €'000**	**Albania €'000**	**Nigeria €'000**	**Ireland €'000**	**Unallocated# €'000**	**Total €'000**
Total revenue	**173**	**–**	**–**	**–**	**–**	**–**	**173**
Segment profit / (loss) before income tax	**(396)**	**–**	**(2,717)**	**29,646**	**2,022**	**(18,021)**	**10,534**
Intangible assets	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Property, plant and equipment	**43**	**–**	**–**	**1,631**	**41**	**–**	**1,715**
Impairment of exploration and evaluation assets	**–**	**–**	**(2,685)**	**–**	**–**	**–**	**(2,685)**
Equity accounted investments	**–**	**–**	**–**	**48,096**	**–**	**–**	**48,096**
Segment non-current assets	**43**	**–**	**–**	**111,832**	**46,958**	**220**	**159,053**
Capital expenditure^	**–**	**–**	**184**	**–**	**–**	**–**	**184**
Segment liabilities	**(796)**	**(577)**	**(713)**	**–**	**–**	**(17,173)**	**(19,259)**

^ This is the net expenditure incurred by the Group excluding amounts incurred by partners on shared exploration interests. It includes assets acquired through business combinations and equity accounted investments.

Unallocated expenditure and liabilities include amounts of a corporate nature and not specifically attributable to a reportable segment.

2017	Poland €'000	Morocco €'000	Albania €'000	Nigeria €'000	Ireland €'000	Unallocated# €'000	Total €'000
Total revenue	324	–	–	–	–	–	324
Segment (loss) / profit before income tax	(11,345)	(30,370)	(5,906)	8,639	(5,530)	(26,816)	(71,328)
Intangible assets	–	–	2,501	–	–	–	2,501
Property, plant and equipment	223	–	–	2,175	–	–	2,398
Impairment of exploration and evaluation assets	(5,995)	(28,946)	(7,842)	–	–	–	(42,783)
Equity accounted investments	–	–	–	58,296	–	–	58,296
Segment non-current assets	219	–	2,501	133,509	44,860	187	181,276
Capital expenditure^	300	5	180	–	–	–	485
Segment liabilities	(3,961)	(1,132)	(667)	–	–	(24,720)	(30,480)

^ This is the net expenditure incurred by the Group excluding amounts incurred by partners on shared exploration interests. It includes assets acquired through business combinations and equity accounted investments.

Unallocated expenditure and liabilities include amounts of a corporate nature and not specifically attributable to a reportable segment.

Revenue relates to the provision of seismic acquisition services in Poland in 2018 and 2017.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018 CONTINUED

3. OTHER INCOME

Group	**2018 €'000**	2017 €'000
Advance from Horizon Petroleum Limited	**–**	95
	–	95

During 2017, further to a Memorandum of Understanding (MoU) dated 25 April 2017 with a third party, and subject to a Sale and Purchase Agreement, which had yet to be agreed at the time for the potential sale of certain Polish assets, the Company received an advance of €178,779 (US$200,000) during June 2017 which was used to meet various payments in relation to the Polish assets, of which €94,868 (US$100,000) is non-refundable in the event that the subsequently signed Sale and Purchase Agreement is not concluded. The refundable amount has been accrued at year end and in the previous financial year.

4. PROFIT ON DISPOSAL OF SUBSIDIARIES

	2018 €'000	2017 €'000
Gora Energy Sp. z o.o. & Liesa Energy Sp. z o.o. to Gemini Resources Limited (i)	**1,034**	–
Island Oil & Gas Limited to Ardilaun Energy Limited (ii)	**(655)**	–
Other (iii)	**–**	28
	379	28

(i) Gora Energy Sp. z o.o. & Liesa Energy Sp. z o.o. to Gemini Resources Limited

During the year, the Group recognised a profit on disposal of €1,034,178 in relation to the sale of two wholly owned subsidiaries, Gora Energy Sp. z o.o. ('Gora') and Liesa Energy Sp. z o.o. ('Liesa'), to Gemini Resources Limited ('Gemini') that were held for sale as at 31 December 2017.

The profit related to the Group's derecognition of decommissioning liabilities associated with Gora and Liesa, which was already provided for as at 31 December 2017. This has resulted in a €1.0 million gain in the Income Statement as at 31 December 2018 (Note 22).

The sale to Gemini has also resulted in the realisation of the cumulative foreign currency gains of €34,178.

(ii) Island Oil & Gas Limited to Ardilaun Energy Limited

During the year, the Group recognised a further loss on disposal of €655,000 in relation to the sale of Island Oil & Gas Limited to Ardilaun Energy Limited in 2014. The loss primarily related to the Group's contribution to the licence fees liability commitment associated with the exploration and evaluation assets disposed of in 2014.

(iii) Other

In 2017 the Company disposed of non-core assets resulting in the realisation of the cumulative foreign currency gains of €28,000.

5. STATUTORY INFORMATION

(a) Group

	2018 €'000	2017 €'000
The profit / (loss) for the financial year is stated after charging / (crediting):		
Depreciation of property, plant, machinery and equipment	**742**	782
Gain on foreign currencies	**547**	1,540
Operating lease rentals		
– Premises	**333**	823
Impairment of exploration and evaluation assets	**2,685**	42,783
Directors shares to be issued*	**660**	812
Share based payment charge	**454**	570

* Oisín Fanning was due 2,537,328 ordinary shares in lieu of 80% of his salary for the year 1 January 2018 to 30 September 2018 and this was charged in 2018. These shares were issued on 25 February 2019.
* Oisín Fanning was due 2,542,432 ordinary shares in lieu of 80% of his salary for the year 1 January 2017 to 31 December 2017 and this was charged in 2017. These shares were issued on 25 February 2019.

During the year, the Group (including its overseas subsidiaries) obtained the following services from KPMG, the Group Auditor:

Auditor's remuneration

	2018 €'000	2017 €'000
Fees paid to lead audit firm:		
Audit of the Group financial statements	**170**	170
Audit of the subsidiary financial statements	**55**	55
Other audit services	**–**	180
Other non-audit services	**–**	–
Total	**225**	405
Fees paid to other firms in the lead audit firm's network:		
Other non-audit services	**–**	5
	–	5
Total	**225**	410

During the year, the Group (including its equity accounted investment) obtained the following audit services, excluding the Group Auditor, KPMG:

	2018 €'000	2017 €'000
Fees paid to other firms:		
Audit of equity accounted investment	**159**	–
Total	**159**	–

(b) Company

	2018 €'000	2017 €'000
The profit / (loss) for the financial year is stated after charging:		
Depreciation of property, plant, machinery and equipment	**1**	–
Gain on foreign currencies	**631**	576
Operating lease rentals – premises	**300**	300
Auditor's remuneration – audit services	**170**	170

As permitted by Section 304 of the Companies Act 2014, the Company Statement of Comprehensive Income has not been separately disclosed in these financial statements. A profit of €21.0 million (2017: a loss of €51.9 million) has been recorded in the parent company.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018
CONTINUED

6. FINANCE EXPENSES

	2018 €'000	2017 €'000
On loans and overdraft	**125**	4,162
Finance arrangement expenses	**1,838**	2,243
Fair value charge on issue of options and warrants (Note 24)	**148**	171
	2,111	6,576

7. FINANCE INCOME

	2018 €'000	2017 €'000
Total finance income on Loan Notes (Note 17)	**32,850**	34,619
Foreign exchange gain on Loan Notes, Valuation (Note 17)	**5,942**	(18,901)
Foreign exchange loss on Loan Notes, ECL (Note 17)	**(383)**	–
Deposit interest received	**88**	9
Interest on directors loan (Note 32)	**2**	–
Interest and fees receivable from NSP Investment Holdings Limited (Note 19)	**–**	497
	38,499	16,224

All interest income is in respect of assets measured at amortised cost.

8. EXPECTED CREDIT LOSSES

	2018 €'000	2017 €'000
Loan Notes gain (note 17)	**3,679**	–
Other debtors provision (Note 19)	**(3,085)**	(5,276)
	594	(5,276)

9. PERSONNEL EXPENSES

Number of employees

The average monthly number of employees (including the Directors) during the year was:

	2018 Number	2017 Number
Directors	**9**	8
Administration	**11**	12
Technical	**5**	7
Seismic crew	**6**	7
	31	34

Employment costs (including Directors)

	2018 €'000	2017 €'000
Wages and salaries (excluding Directors)	**1,824**	1,736
Directors' salaries	**1,555**	1,349
Director bonuses	**753**	631
Social welfare costs	**412**	355
Directors' fees and consultancy costs	**701**	636
Termination payments	**186**	–
Shares to be issued in lieu of Director's salary#	**660**	812
Share based payment charge for options issued to Directors	**169**	–
Employees' pension	**46**	43
Benefits	**51**	–
Directors' pension	**84**	84
	6,441	5,646

Oisín Fanning was due 2,537,328 ordinary shares in lieu of 80% of his salary for the period from 1 January 2018 to 30 September 2018 and €660,000 has been recognised in share-based payments in respect of this. These shares were issued on 25 February 2019.

Oisín Fanning was due 2,542,432 ordinary shares in lieu of 80% of his salary for the period from 1 January 2017 to 31 December 2017 and €811,514 was been recognised in share-based payments in respect of this. These shares were issued on 25 February 2019.

Details of the Directors' remuneration are set out in the Directors' Report.

Details of consultancy arrangements with Directors are set out in Note 32.

During the year, €Nil (2017: €0.3 million) was capitalised in exploration and evaluation assets in respect of Group employment costs above, €Nil (2017: €0.2 million) of which were subsequently impaired/written. The Group contributes to a defined contribution pension scheme for certain executive directors and employees. The scheme is administered by trustees and is independent of the Group finances. Total contributions by the Group to the pension scheme, including contributions for Directors amounted to €84,000 (2017: €0.1 million).

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018
CONTINUED

10. INCOME TAX EXPENSE

	2018 €'000	2017 €'000
Current tax		
Current year income tax	**3**	4
Deferred tax		
Origination and reversal of temporary differences (Note 31)	**2,726**	2,195
Deferred tax movement in Barryroe NPI under IFRS 9	**667**	–
Deferred tax movement on fair value of other financial assets, Quoted shares	**(132)**	–
Deferred tax movement on fair value of other financial assets, Unquoted shares	**35**	–
Total income tax charge	**3,299**	2,199

The difference between the total tax shown above and the amount calculated by applying the applicable standard rate of Irish corporation tax to the loss before tax is as follows:

	2018 €'000	2017 €'000
Profit / (loss) before income tax	**10,534**	(71,328)
Tax on profit / (loss) at applicable Irish corporation tax rate of 25% (2017: 25%)	**2,634**	(17,832)
Effects of:		
Deferred tax on fair value movement in financial assets	**162**	–
Prior Year adjustment	**(97)**	–
Losses utilised in year	**(2,726)**	(2,198)
Expenses not deductible for tax purposes	**2,095**	19,789
Income tax withheld	**3**	3
Polish tax liability	**–**	1
Excess losses carried forward	**1,228**	2,436
Tax charge for the year	**3,299**	2,199

11. EARNINGS PER SHARE

Basic earnings per share

Basic loss per share is calculated by dividing the loss attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year as follows:

	2018 €'000	2017 €'000
Profit / (loss) for the year	**7,235**	(73,527)

11. EARNINGS PER SHARE CONTINUED

The weighted average number of shares in issue is calculated as follows:

	2018 Number of shares	2017 Number of shares
In issue at start of year (Note 27)	**500,256,857**	443,025,720
Shares to be issued at start of year	**3,052,942**	–
Effect of shares issued and shares to be issued in the year	**1,451,304**	11,446,333
Weighted average number of ordinary shares in issue (basic)	**504,761,103**	454,472,053
Basic earnings / (loss) per ordinary share (cent)	**1.43**	(16.15)

Diluted earnings per share

Diluted earnings per share is calculated by dividing the loss attributable to equity holders of the Company by the weighted average number of ordinary shares outstanding after adjustment for effects of all dilutive potential ordinary shares as follows:

	2018 €'000	2017 €'000
Profit / (loss) for the year	**7,235**	(73,527)

The diluted weighted average number of shares in issue is calculated as follows:

	2018 Number of shares	2017 Number of shares
Basic weighted average number of shares in issue during the year	**504,761,103**	454,472,053
Effect of share options and warrants in issue	**–**	890,511
	504,761,103	455,362,564
Diluted earnings / (loss) per ordinary share (cent)	**1.43**	(16.18)

The number of options which are anti-dilutive and have therefore not been included in the above calculations is 39,304,060 (2017: 33,706,327).

12. INTANGIBLE ASSETS

Group	Exploration and evaluation assets € 000
Cost and net book value	
At 1 January 2017	44,621
Additions	485
Write off / impairment of exploration and evaluation assets	(42,783)
Currency translation adjustment	178
At 31 December 2017	**2,501**
Additions (ii)	184
Write off / impairment of exploration and evaluation assets	(2,685)
At 31 December 2018	**–**

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FOR THE YEAR ENDED 31 DECEMBER 2018
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12. INTANGIBLE ASSETS CONTINUED

Company	Exploration and evaluation assets € 000
Cost and net book value	
At 1 January 2017	9,020
Impairment of exploration assets in 2017	(9,020)
At 31 December 2017 and 31 December 2018	**–**

An analysis of intangible assets by geographical area is set out in Note 2.

(i) The following geographical exploration areas in the Group were impaired / written off during the year:

	2018 €'000	2017 €'000
Albania	**2,685**	5,995
Morocco	**–**	28,946
Poland	**–**	7,842
	2,685	42,783

(ii) This is the net amount incurred by San Leon Energy and excludes amounts attributable to joint operating partners of €Nil in 2018 (2017: €Nil).

The Directors have considered the carrying value at 31 December 2018 of capitalised costs in respect of its exploration and evaluation assets. These assets have been assessed for impairment indicators and in particular with regard to remaining licence terms, likelihood of licence renewal, likelihood of further expenditures and on-going appraisals for each area, as described in the Operating Review. Based on internal assessments from the latest information available, the Directors have impaired the exploration and evaluation assets by €2.7 million (2017: €42.8 million).

13. EQUITY ACCOUNTED INVESTMENTS

Group	**2018 €'000**	2017 €'000
Cost and net book value		
At 1 January	**58,296**	74,382
Share of loss of equity accounted investment	**(12,441)**	(7,079)
Exchange rate adjustment	**2,241**	(9,007)
At 31 December	**48,096**	58,296

The Group's only joint venture entity at 31 December 2018 is as follows:

Name	Registered office	% held
Midwestern Leon Petroleum Limited	5th Floor Barkly Wharf, Le Caudan Waterfront, Port Louis, Republic of Mauritius	40%

13. EQUITY ACCOUNTED INVESTMENTS CONTINUED

2018

A summary of the financial information of the equity investments is detailed below.

	Midwestern Leon Petroleum Limited (ii)
Equity Interest	**40%**
	€ '000
Revenue	**–**
(Loss) from continuing operations	**(27,436)**
Other comprehensive income	**–**
Total comprehensive loss	**(27,436)**
Non-current assets	**177,985**
Current assets (excluding cash)	**212,008**
Cash	**–**
Non-current liabilities	**(42,148)**
Current liabilities	**(227,605)**
Net assets	**120,240**
Group's interest in net assets of investee at 1 January 2018	**58,296**
Share of loss	**(12,441)**
Group's interest in net assets of investee at end of year	**45,855**
Foreign exchange	**2,241**
Carrying amount of interest in investee at 31 December 2018	**48,096**

2017

A summary of the financial information of the equity investments is detailed below.

	Olesnica LLP (i)	South Prabuty LLP (i)	Midwestern Leon Petroleum Limited (ii)	**Total**
Equity Interest	75%	75%	40%	
	€ '000	€ '000	€ '000	**€ '000**
Revenue	–	–	–	**–**
(Loss) from continuing operations	–	–	(17,698)	**(17,698)**
Other comprehensive income	–	–	–	**–**
Total comprehensive loss	–	–	(17,698)	**(17,698)**
Non-current assets	–	–	167,780	**167,780**
Current assets (excluding cash)	1	1	189,752	**189,754**
Cash	–	2	–	**2**
Non-current liabilities	–	–	(60,690)	**(60,690)**
Current liabilities	(4)	(4)	(151,101)	**(151,109)**
Net assets	(3)	(1)	145,741	**145,737**
Group's interest in net assets of investee at 1 January 2017	–	–	74,382	**74,382**
Share of loss	–	–	(7,079)	**(7,079)**
Group's interest in net assets of investee at end of year	–	–	67,303	**67,303**
Foreign exchange	–	–	(9,007)	**(9,007)**
Carrying amount of interest in investee at 31 December 2017	–	–	58,296	**58,296**

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13. EQUITY ACCOUNTED INVESTMENTS CONTINUED

(i) During December 2015, the Company made a decision to exit the South Prabuty and Olesnica concessions. The Company's investments in the South Prabuty and Olesnica and joint ventures were fully impaired at that time. South Prabuty LLP and Olesnica LLP were dissolved on 5 June 2018 and 11 September 2018 respectively.

(ii) During 2016 the Company acquired a 40% non-controlling interest in MLPL as part of the OML 18 transaction. Full details of the OML 18 transaction are set out in Note 17(i). The movement during 2018 partly reflects an exchange rate gain of €2.6 million (2017: €9.0 million loss) as the underlying investment is in US$'s which strengthened against the Euro. Further a share of the loss of MLPL being administrative costs of €2.0 million (2017: €1.0 million), net finance costs of €45.8 million (2017: €4.8 million), profit on investment of €0.1 million (2017: €0.8 million) and a tax charge of €6.9 million (2017: €2.1 million).

The above interests are accounted for as equity accounted investments as San Leon does not have control over the entities, which are governed under Joint Venture Agreements requiring the approval of both parties to the Joint Venture Agreement in respect of all operating decisions.

The Directors recognise that the future realisation of the equity accounted investments is dependent on future successful exploration and appraisal activities and subsequent production of oil and gas reserves.

14. PROPERTY, PLANT AND EQUIPMENT – GROUP

	Plant & equipment €'000	Office equipment €'000	Motor vehicles €'000	Total €'000
Cost				
At 1 January 2017	7,893	1,055	392	9,340
Disposals	(98)	(22)	(24)	(144)
Currency translation adjustment	289	12	15	316
At 31 December 2017	8,084	1,045	383	9,512
Additions / (disposals)	–	66	–	66
Currency translation adjustment	(154)	(12)	(8)	(174)
At 31 December 2018	**7,930**	**1,099**	**375**	**9,404**
Depreciation				
At 1 January 2017	4,678	1,008	375	6,061
Disposals	–	–	(14)	(14)
Charge for the year	775	7	–	782
Currency translation adjustment	261	10	14	285
At 31 December 2017	**5,714**	**1,025**	**375**	**7,114**
Charge for the year	731	5	6	742
Currency translation adjustment	(150)	(9)	(8)	(167)
At 31 December 2018	**6,295**	**1,021**	**373**	**7,689**
Net book values				
At 31 December 2018	**1,635**	**78**	**2**	**1,715**
At 31 December 2017	2,370	20	8	2,398

14. PROPERTY, PLANT AND EQUIPMENT – COMPANY

	Office equipment €'000	Total €'000
Cost		
At 1 January 2017 and 31 December 2017	437	437
Additions	41	41
At 31 December 2018	**478**	**478**
Depreciation		
At 1 January 2017 and 31 December 2017	437	437
Charge for the year	1	1
At 31 December 2018	**438**	**438**
Net book values		
At 31 December 2018	**40**	**40**
At 31 December 2017	–	–

15. OTHER NON-CURRENT ASSETS

	Group 2018 €'000	Group 2017 €'000	**Company 2018 €'000**	Company 2017 €'000
Deposits on Spanish oil and gas concession applications (i)	**92**	92	**–**	–
Deposits on Spanish oil and gas concessions (i)	**88**	88	**–**	–
	180	180	**–**	–

	Group 2018 €'000	Group 2017 €'000	**Company 2018 €'000**	Company 2017 €'000
At 1 January	**180**	257	**–**	–
Deposits returned (i)	**–**	(77)	**–**	–
Expected credit losses	**–**	–	**–**	–
At 31 December	**180**	180	**–**	–

(i) The deposits paid are recoverable on completion of work programmes attached to each of the concessions. During 2017 the Ministry returned €77,380 to the Company in relation to oil and gas concession applications that were withdrawn by the Company.

16. FINANCIAL ASSETS – COMPANY

	2018 €'000	2017 €'000
Investment in subsidiary undertakings at cost:		
Balance at beginning of year	**30,226**	47,038
Impairment during the year (i)	**(2,681)**	(16,812)
Balance at end of year	**27,545**	30,226

(i) The impairments to the Company's investment in subsidiary undertakings recorded in 2018 and 2017 reflect the write down in the carrying value of the Group's exploration and evaluation assets in each year.

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FOR THE YEAR ENDED 31 DECEMBER 2018
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16. FINANCIAL ASSETS – COMPANY CONTINUED

At 31 December 2018, the Company had the following principal subsidiaries, all of which are wholly owned through holding all of the issued ordinary shares of the entities:

Name	Registered Office
Directly held:	
San Leon Energy B.V.	de Ronge 16, 1852 XB Heiloo, The Netherlands
San Leon (USA) Limited	1st Floor, Wilton House, Wilton Place, Dublin 2
San Leon (Morocco) Limited	PO Box 146, Trident Chambers, Tortola, BVI
San Leon (Netherlands) Limited	PO Box 146, Trident Chambers, Tortola, BVI
San Leon Energy Srl	Piazza Vescovio, 700199 Rome, Italy
San Leon Services Limited	12 Castle Street, St. Helier, Jersey JE2 3RT
0921642 B.C. Unlimited Liability Company	Suite 1700, Park Place, 666 Burrard Street, Vancouver BC V6C 2X8, Canada
Aurelian Oil & Gas Limited	7 Cavendish Court Mayfare, Croxley Green, Rickmansworth, WD3 3DJ, United Kingdom
San Leon Energy Nigeria B.V.	de Ronge 16, 1852 XB Heiloo, The Netherlands
San Leon Energy (Iraq) Limited	1st Floor, Wilton House, Wilton Place, Dublin 2

Indirectly held:	
Baltic Oil and Gas Sp. Z o.o.	ul. Zelazna 59, 00-848, Warsaw, Poland
Vabush Energy Sp. z o.o.	ul. Zelazna 59, 00-848, Warsaw, Poland
Braniewo Energy Sp. Z o.o.	ul. Zelazna 59, 00-848, Warsaw, Poland
Novaseis Sp. z o.o.	ul. Zelazna 59, 00-848, Warsaw, Poland
Helland Energy Sp. z o.o.	ul. Zelazna 59, 00-848, Warsaw, Poland
San Leon Services Sp. z o.o.	ul. Zelazna 59, 00-848, Warsaw, Poland
San Leon Praszka Sp. z o.o.	ul. Zelazna 59, 00-848, Warsaw, Poland
Aurelian Oil and Gas Poland Sp. z o.o.	ul. Zelazna 59, 00-848, Warsaw, Poland
Energia Cybinka Sp. z o.o.#	ul. Zelazna 59, 00-848, Warsaw, Poland
Energia Torzym Sp. z o.o.#	ul. Zelazna 59, 00-848, Warsaw, Poland
Energia Karpaty Zachodnie Sp. z o.o.	ul. Zelazna 59, 00-848, Warsaw, Poland
Energia Karpaty Zachodnie Sp. z o.o. Spk.	ul. Zelazna 59, 00-848, Warsaw, Poland
T.K. Exploration Sp. z o.o.	ul. Zelazna 59, 00-848, Warsaw, Poland
Gdansk Energy Sp. z o.o.	ul. Zelazna 59, 00-848, Warsaw, Poland
Szczawno Energy Sp. z o.o.	ul. Zelazna 59, 00-848, Warsaw, Poland
Prusice Energy Sp. z o.o.	ul. Zelazna 59, 00-848, Warsaw, Poland
Kotlarka Energy Sp. z o.o.	ul. Zelazna 59, 00-848, Warsaw, Poland
San Leon Durresi B.V.	de Ronge 16, 1852 XB Heiloo, The Netherlands

16. FINANCIAL ASSETS – COMPANY CONTINUED

Name	Registered Office
San Leon Morocco B.V.	de Ronge 16, 1852 XB Heiloo, The Netherlands
San Leon Offshore Morocco B.V.	de Ronge 16, 1852 XB Heiloo, The Netherlands
San Leon Tarfaya Shale B.V.	de Ronge 16, 1852 XB Heiloo, The Netherlands
Seisquest B.V.	de Ronge 16, 1852 XB Heiloo, The Netherlands
Braniewo B.V.	de Ronge 16, 1852 XB Heiloo, The Netherlands.
San Leon Canada Limited (formerly Realm Energy International Corporation)	Suite 1700, Park Place, 666 Burrard Street, Vancouver, BC V6C 2X8, Canada
Realm Energy Operations Corporation	Suite 1700, Park Place, 666 Burrard Street, Vancouver BC V6C 2X8, Canada
Realm Energy (BVI) Corporation	Walkers Chambers, 171 Main Street, Road Town, Tortola, BVI
Realm Energy International Coopteratief U.A.	de Ronge 16, 1852 XB Heiloo, The Netherlands
Realm Energy International Holding B.V.	de Ronge 16, 1852 XB Heiloo, The Netherlands
Realm Energy European Investments B.V.	de Ronge 16, 1852 XB Heiloo, The Netherlands
Frontera Energy Corporation S.L.	Paseo Maria Agustin, 4-6, Esc 3. Piso 4, Zaragoza, 5004, Spain
San Leon Wielun B.V.	de Ronge 16, 1852 XB Heiloo, The Netherlands
San Leon Olesnica B.V.	de Ronge 16, 1852 XB Heiloo, The Netherlands
San Leon South Prabuty B.V.	de Ronge 16, 1852 XB Heiloo, The Netherlands
San Leon Energy (UK) Limited	7 Cavendish Court Mayfare, Croxley Green, Rickmansworth, WD3 3DJ, United Kingdom
AOG Finance Limited	7 Cavendish Court Mayfare, Croxley Green, Rickmansworth, WD3 3DJ, United Kingdom
Balkan Explorers (Bulgaria) Limited	7 Cavendish Court Mayfare, Croxley Green, Rickmansworth, WD3 3DJ, United Kingdom

During 2017 the Company acquired the remaining 30% of its equity accounted investments Energia Cybinka Sp. z o.o. Spk. and Energia Torzym Sp. z o.o. SPK, and continues to consolidated its decommissioning liabilities in full. In 2018 the equity accounted investments were merged into their respective limited companies, Energia Cybinka Sp. z o.o. and Energia Torzym Sp. z o.o

The Company is currently in the process of liquidating and or selling many of the above companies in line with its strategy to relinquish non-core interests.

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17. FINANCIAL ASSETS

Group & Company	OML 18 (i) €'000	Barryroe 4.5% net profit interest (ii) €'000	Quoted shares (iii) €'000	Unquoted shares (iv) €'000	Total €'000
New classification under IFRS 9	Amortised cost	FVTPL	FVOCI – equity instrument	FVOCI – equity instrument	
Cost / Valuation					
At 1 January 2017	153,384	48,517	82	5,360	207,343
Finance income	34,619	–	–	–	34,619
Loan Notes receipts	(34,277)	–	–	–	(34,277)
Disposals	–	–	(31)	–	(31)
Exchange rate adjustment	(18,901)	–	–	–	(18,901)
Fair value movement	–	(5,874)	(22)	–	(5,896)
Impairment of unquoted shares	–	–	–	(3,171)	(3,171)
At 31 December 2017	134,825	42,643	29	2,189	179,686
Finance income	32,850	–	–	–	32,850
Loan Notes receipts	(56,423)	–	–	–	(56,423)
Exchange rate adjustment	5,942	–	–	–	5,942
Fair value movement, Income statement	–	2,022	(29)	–	1,993
Fair value movement, Other comprehensive income	–	–	–	104	104
At 31 December 2018	**117,194**	**44,665**	**–**	**2,293**	**164,152**
Expected Credit Loss Provision					
At 31 December 2017	–	–	–	–	–
Recognised on transition to IFRS 9	(8,071)	–	–	–	(8,071)
Released in the year	3,679	–	–	–	3,679
Exchange rate adjustment	(383)	–	–	–	(383)
At 31 December 2018	**(4,775)**	**–**	**–**	**–**	**(4,775)**
Book value at 31 December 2018	**112,419**	**44,665**	**–**	**2,293**	**159,377**
Current	**50,315**	**–**	**–**	**–**	**50,315**
Non-current	**62,104**	**44,665**	**–**	**2,293**	**109,062**
Book value at 31 December 2017	134,825	42,643	29	2,189	179,686
Current	61,785	–	–	–	61,785
Non-current	73,040	42,643	29	2,189	117,901

Net Profit Interests (v) (vi) (vii): These NPIs have a nil value from acquisition.

17. FINANCIAL ASSETS CONTINUED

(i) OML 18

In September 2016, the Company secured an indirect economic interest in Oil Mining Lease 18 (“OML 18”), onshore Nigeria.

The Company undertook a number of steps to effect this purchase. Midwestern Leon Petroleum Limited ("MLPL"), a company incorporated in Mauritius of which San Leon Nigeria B.V. has a 40%. shareholding, was established as a special purpose vehicle to complete the transaction by purchasing all of the shares in Martwestern Energy Limited (“Martwestern”), a company incorporated in Nigeria. Martwestern holds a 50%. shareholding in Eroton Exploration and Production Company Limited (“Eroton”), a company incorporated in Nigeria and the operator of OML 18, and Martwestern also holds an initial 98%. economic interest in Eroton. The economic effect of this structure is that San Leon has an initial indirect economic interest of 10.584% in OML 18. Shareholders will note this is higher than the percentage interest anticipated by San Leon at the time of the acquisition in 2016. There have been no further purchases or payments by San Leon but this revised percentage is based on a reassessment and recalculation of the various parties’ interests in OML 18.

To partly fund the purchase of 100% of the shares of Martwestern, MLPL borrowed €156.6 million (US$174.5 million) in incremental amounts by issuing loan notes with an annual coupon of 17%. (“Loan Notes”). Midwestern Oil and Gas Company Limited is the 60%. shareholder of MLPL and transferred its shares in Martwestern to MLPL as part of the full transaction. Following its placing in September 2016, San Leon became beneficiary and holder of all Loan Notes issued by MLPL. San Leon is due to be repaid the full amount of the €156.6 million (US$174.5 million) plus the 17% coupon once certain conditions have been met and using an agreed distribution mechanism. Through its wholly owned subsidiary, San Leon Nigeria B.V., the Company is also a beneficiary of any dividends that will be paid by MLPL as a 40%. shareholder in MLPL but the Loan Notes repayments must take priority over any dividend payments made to the MLPL shareholders.

The fair value assessment of the Loan Notes on acquisition was calculated as follows:

	Total €’000
Total consideration (US$188.4 million)	**169,032**
Fair value of Loan Notes attributable to equity investment (US$30.9 million)#	**(27,545)**
Net fair value of Loan Notes (US$157.5 million)	**141,487**
Arrangement fees (US$5.5 million)	**(4,904)**
Additions to Financial Assets in 2016 including accrued interest at date of acquisition (US$152.0 million)	**136,583**

The fair value of Loan Notes attributable to the equity investment is calculated using a discount factor of management’s estimate of a market rate of interest of 8% above the coupon rate of 17% over the term of the Loan Notes.

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17. FINANCIAL ASSETS CONTINUED

The key information relevant to the fair value of the Loan Notes on the date they were initially recognised is as follows:

Valuation technique	Significant unobservable inputs*	Inter-relationships between the unobservable inputs and fair value measurements
Discounted cash flows	• Discount rate 25% based on a market rate of interest of 8% above the coupon rate of 17% • MLPL ability to generate cash flows for timely repayment • Loan Notes are repayable in full by 30 September 2020.	The estimated value would increase / (decrease) if: US Dollar exchange rate increased / (decreased)

* Day 1 and considered appropriate going forward.

The business model for the MLPL loan is to hold to collect. During the year management chose to take the opportunity of the adoption of IFRS 9 to build a new financial model to improve estimation of amounts in respect of the MLPL loan on an IFRS 9 basis. Although the basis of accounting under IFRS 9 should be consistent with IAS 39, the revised calculation provides a better estimate of the effect of small timing differences on the amounts contractually recoverable under the loan agreement, and the amortisation of the discount to the principal amount paid on initial recognition.

The credit risk is managed via various undertakings, guarantees, a pledge over shares and the mechanism whereby MLPL prioritises payment of sums due under the Loan Notes. Given the size and quality of the OML 18 oil and gas asset the main credit risk is regarded as the timing of payments by MLPL which is dependent on dividend distributions by Eroton rather than being unable to pay the total quantum due under the Loan Notes. To date Eroton have been unable to make a dividend distribution. Consequently, MLPL had to enter into a loan in 2017 and subsequently, in order to be able to meet its obligations under the Loan Notes and make payments to San Leon.

During 2018 San Leon received total payments under the Loan Notes of €56.4 million (US$66.2 million) (2017: €34.3 million (US$39.6 million)). The payments received during 2018 represent principal of €27.8 million (US$32.2) (2017: €Nil (US$Nil)) and interest of €28.6 million ($US34.0 million) (2017: €34.3 million (US$39.6 million)) on the Loan Notes repaid. As at 31 December 2018 there was €117.2 million (US$134.2 million) (2017: €134.8 million (US$161.7 million)), due under the Loan Notes.

In 2019 the Company has received total payments under the Loan Notes of €9.4 million (US$10.7 million). €14.7 million (US$16.5 million) was due on 1 April 2019 under the terms of the Loan Notes and is outstanding.

The Directors of San Leon have considered the credit risk of the Loan Notes at 31 December 2017 and 31 December 2018. Due to the inability of Eroton to make dividend distributions, the directors consider that the credit risk has significantly increased since initial recognition, and a provision for the lifetime expected credit loss of the Loan Notes has been recognised. The Loan Note is not considered credit impaired on the basis of operational reports and forward-looking management information of OML 18 which are consistent with successful exploitation of the field over its life, and the funding facilities expected to be available to MLPL over the short to medium term.

17. FINANCIAL ASSETS CONTINUED

The Loan Notes are unique assets for which there is no directly comparable market data. The lifetime expected credit loss of the Loan Notes has been determined based on publicly available macroeconomic data of 12-month default rates by geography, industry and rating, and considering forward-looking information with regard to oil prices and operational and financial reports of the borrower to determine whether any adjustment to the historical trends is appropriate at 1 January 2018 or 31 December 2018. An annual expected credit loss of 3.11% was considered to be an appropriate rate from which to extrapolate a lifetime expected credit loss as at 1 January 2018 and 31 December 2018. In management's view the outlook for oil pricing and the OML 18 oil reserves is broadly stable over the term of the loan and does not provide evidence of a change in future risk from the historical trend.

The loss on default has been assumed to be 100% due to the holding and financial structure of the underlying asset which supports the loan notes. Default events are those which will give rise to an economic loss for the Company, rather than just a timing issue of when cash is received, At that point the underlying asset would need to have been substantially underperforming and it is likely that this would precipitate a restructuring between the parties that would be time-consuming, incur additional cost, and from which any ultimate recovery by the Company cannot be reliably assessed.

The Company determined that the expected credit loss provision of €8.1 million (US$9.7 million), being 5.8% of the balance at 1 January 2018 was appropriate. This declined to €4.8 million (US$5.5 million) due to the lifetime of the Loan Notes reducing by 12 months, reducing the expected probability of default over the remaining loan term to 4.1%, and the repayments made in 2018 reducing the balance at that date, resulting in a gain of €3.7 million (US$4.2 million) to the income statement for 2018.

(ii) Barryroe – 4.5% Net Profit Interest

SLE holds a 4.5% Net Profit Interest in the Barryroe oil field at fair value through profit and loss under IFRS 9 (previously held as an "available for sale" financial asset at fair value under IAS 39). In previous years the valuation approach has been based upon a financial model with updated assumptions. For year ended 31st December 2018 the Board have considered detailed assumptions, public information and modelling contained within a recent broker report (dated 12 December 2018. The directors believe that this report provides up-to-date and relevant assumptions to base their valuation (it will most likely have the benefit of discussions with the Barryroe operator), and is therefore appropriate to use to update their valuation.

The 2018 announcements by Providence provide further reinforcement of the increased confidence in the project. The previous uncertainty in drilling has now significantly decreased (we do not believe this is materially modified by the short delay in payment receipt indicated in Providence's June 2019 announcements).

The directors have reviewed the modelling assumptions regarding timing, oil price, costs and risk, and consider them reasonable and appropriate. In the opinion of the directors their assessment of the modelling at December 2018 is that there is a modest increase in the carrying value of the asset, largely driven by de-risking, notwithstanding the delays in farm-out payment receipt. The directors have decided to maintain the carrying value of the Barryroe 4.5% NPI at US$51 million.

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17. FINANCIAL ASSETS CONTINUED

The key information relevant to the fair value of the Barryroe 4.5% net profit interest is as follows:

Valuation technique	Significant unobservable inputs	Inter-relationships between the unobservable inputs and fair value measurement
Internal management model (2017: Third party evaluation report prepared by NSAI in July 2013 as released by Providence Resources Plc and internal management assumptions/amendments based on a net present value of future cash flows model.)	First oil 2024 (2017: 2019) Oil price over the period is to be US$60/BBL (2017: US$55/BBL) Risking applied is 64% (2017: n/a) Discount rate 10% (2017: 15%) Capex and opex based upon current and expected market rates (2017: no change) Life of field expected to be 17 years (2017: 25 years) Oil production of 311MM BBL over the life of the field on a successful development of the 2C contingent resources case (2017: 261MM BBL)	The estimated fair value would increase / (decrease) if: The oil price per barrel increased / (decreased) The resource estimates increased / (decreased) or the life of the field increased / (decreased) US Dollar exchange rate increased / (decreased)

(iii) Amedeo Resources plc

During 2017, the Company sold 100,000 of its ordinary shares in Amedeo Resources plc for value of €30,998. At 31 December 2018, the Company held 213,512 ordinary shares at a market value of €Nil (2017: €28,878).

(iv) Ardilaun Energy Limited

As part of the consideration for the sale of Island Oil & Gas Limited to Ardilaun Energy Limited ("Ardilaun") in 2014 Ardilaun agreed to issue shares equivalent to 15% of the issued share capital of Ardilaun to San Leon. The original fair value of the 15% interest in Ardilaun was based on a market transaction in Ardilaun shares. In 2017 the Directors considered the carrying value of this interest at 31 December 2017 and given the length of time to obtain Irish government approval for the transaction. The Directors felt it is prudent to carry 15% of Ardilaun shares still to be issued to San Leon at a lower value of €2.2 million (US$2.6 million). Consequently, €3.2 million (US$3.3 million) was charged to the Income Statement in 2017.

17. FINANCIAL ASSETS CONTINUED

At 31 December 2018 the Directors are satisfied that there are no further impairment indicators to the carrying value. There is, however, a positive adjustment for foreign exchange between the two reporting periods of €104,000 due to the strengthening of the US Dollar in the year.

Valuation technique	Significant unobservable inputs	Inter-relationships between the unobservable inputs and fair value measurements
Analyst reports	• NPV / bbl of $10.30 • Total capex of over $600m, equating to $12 / bbl, and life-of-field opex of $1bn, equating to roughly $20 / bbl (including FPSO lease costs). • Undiscounted, full field NPV at 10% of $517m, which given an assumed recovery of roughly 50mmbbls, equates to a NPV / bbl of $10.30 • 20% chance of successful development • Life of field expected to be 18 years • Oil price over the period is assumed to be US$60/bbl • Discount rate 50% to apply risk	The estimated fair value would increase / (decrease) if: The oil price per barrel increased / (decreased) The resource estimates increased / (decreased) or the life of the field increased / (decreased) US Dollar exchange rate increased / (decreased) Regional exploration success increased / (decreased)

(v) Poznan 10% Net Profit Interest

In 2016, San Leon sold its 35% interest in the Poznan assets for a consideration of €1 plus a 10% NPI. Until active development commences a nil value has been placed on the NPI.

(vi) Gora 5% Net Profit Interest

In 2018, San Leon sold its interest in the Gora assets for a consideration of €1 plus a 5% NPI. Until active development commences a nil value has been placed on the NPI. (Notes 4 & 22).

(vii) Liesa 5% Net Profit Interest

In 2018, San Leon sold its interest in the Liesa assets for a consideration of €1 plus a 5% Net Profit Interest ("NPI"). Until active development commences a nil value has been placed on the NPI. (Notes 4 & 22).

18. INVENTORY

	Group 2018 €'000	Group 2017 €'000	**Company 2018 €'000**	Company 2017 €'000
Spare parts and consumables	**237**	282	**–**	–

Spare parts include drilling equipment and consumables utilised by the Group's seismic services company.

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19. TRADE AND OTHER RECEIVABLES

	Group 2018 €'000	Group 2017 €'000	**Company 2018 €'000**	Company 2017 €'000
Amounts falling due within one year:				
Amounts owed by group undertakings (i)	**–**	–	**133,285**	133,177
Expected credit loss on amounts owed by group undertakings (i)	**–**	–	**(130,510)**	(130,914)
Net amounts owed by group undertakings	**–**	–	**2,775**	2,263
Trade receivables from joint operating partners	**33**	219	**14**	12
Corporation tax refundable	**33**	–	**33**	–
VAT and other taxes refundable (iv)	**414**	160	**62**	36
Other debtors (ii) (iii)	**4,043**	9,054	**751**	2,266
Expected credit loss on other debtors (ii) (iii) (iv)	**(3,085)**	(5,276)	**–**	(1,668)
Prepayments	**59**	190	**19**	84
Director's Loan (Note 32)	**635**	–	**635**	–
	2,132	4,347	**4,289**	2,993

(i) Amounts owed by Group undertakings are interest free and repayable on demand with the exception of amounts due from the Polish subsidiaries of €6.7 million (2017: €6.5 million) which are repayable on demand and subject to a market rate of interest from the date the loan was advanced (Note 32).

At 31 December 2018, the Company is owed €133.3 million (2017: €133.2 million) by its subsidiaries in respect of funds advanced to them and expenses discharged by the Company on their behalf. An impairment provision of €130.5 million (2017: €130.9 million) against these debts has been provided as at the year end. The credit-impaired balances relate to the funding of historical investments in subsidiaries to hold assets and businesses which have been abandoned or discontinued in prior periods and from which no economic value is expected. The expected credit loss on remaining loans to subsidiaries is not considered material.

(ii) In 2017, other debtors included €2.9 million (US$3.6 million) due from NSP Investments Holdings Ltd for the disposal of equity accounted investments. During 2018, the Directors fully provided for the amount (€2.9 million) due plus interest accrued in 2018 (€0.2 million). Other material amounts are disclosed in Note 33 (b).

(iii) During 2017, the Directors fully provided against €4.6 million (US$5.5 million), due to the protracted nature of government approval with regard to the Ardilaun transaction and the length of time to receive a related payment being 36 months, in the event of approval, and a debtor which is in dispute.

(iv) During 2017, a provision was made for €0.7 million in relation to VAT in an overseas jurisdiction deemed likely to be irrecoverable.

20. OTHER FINANCIAL ASSETS

	Group 2018 €'000	Group 2017 €'000	**Company 2018 €'000**	Company 2017 €'000
Restricted cash at bank	**–**	–	**–**	–

	Group 2018 €'000	Group 2017 €'000	**Company 2018 €'000**	Company 2017 €'000
At 1 January	**–**	1,328	**–**	–
Cash return	**–**	–	**–**	–
Foreign exchange differences	**–**	(161)	**–**	–
Provision	**–**	(1,167)	**–**	–
At 31 December	**–**	–	**–**	–

Restricted cash at bank at 31 December 2017 and 2018 comprises a deposit account held in support of bank guarantees required under the Moroccan exploration licence, Zag, held by the Group.

In April 2017, the Company announced that the Office National des Hydrocarbures et des Mines ("ONHYM") had written to the Company regarding the non-performance of the work programme on its Zag Licence, onshore Morocco. ONHYM has assumed control of the existing bank guarantee (listed above as restricted cash), and has requested a penalty of the same amount again to be paid. The Zag licence is in a geographical area which the Company believes justifies a declaration of force majeure due to the regional security situation. San Leon has fully provided for the loss of monies (held in support of the bank guarantee) in the 2017 accounts. The Company is still in negotiations with ONHYM regarding the licence including the work programme, the force majeure status and the recoverability of the bank guarantee and appropriateness of the penalty. The directors believe that San Leon's claim is valid and that a penalty is unlikely and have therefore not provided for this in the accounts.

21. CASH AND CASH EQUIVALENTS

	Group 2018 €'000	Group 2017 €'000	**Company 2018 €'000**	Company 2017 €'000
Cash and cash equivalents	**35,600**	6,474	**35,092**	6,159
Solicitor client account (i)	**–**	1,657	**–**	1,657
	35,600	8,131	**35,092**	7,816

(i) Solicitor client account at 31 December 2017 represents monies held on behalf of the Company by David M. Turner & Company Solicitors.

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22. HELD FOR SALE ASSETS AND LIABILITIES

(i) Gemini Resources Limited

In December 2018, the Group completed the sale of two wholly owned subsidiaries, Gora Energy Sp. z o.o. ('Gora') and Liesa Energy Sp. z o.o. ('Liesa'), to Gemini Resources Limited ('Gemini') that were held for sale as at 31 December 2017.

Gemini paid a nominal cash consideration of €1 plus a 5% net profits interest in each of two concessions, namely the Gora Concession in Gora and Nowa Sol Concession in Liesa.

Following completion, the Group no longer has decommissioning liabilities associated with Gora and Liesa, which has been already provided for as at 31 December 2017. This has resulted in a €1.0 million gain and is included in Profit on sale of subsidiaries in the Income Statement as at 31 December 2018 (Note 4).

Gemini also agreed to pay reimbursable back costs of €169,250 which is included in other debtors (Note 19).

(ii) Horizon Petroleum Limited

Sale and purchase agreements for a 100% interest in two oil & gas concessions in Poland, known as Cieszyn and Bielsko-Biala, (the "Primary Concessions"), plus a 100% working interest in two additional oil & gas concessions in Poland, known as Prusice and Kotlarka, and a further concession, which is under application (together the "Secondary Concessions") were also signed with Horizon Petroleum Limited ('Horizon') (TSXV: HPL) in 2017. Completion of the agreements requires various formalities to be concluded, including governmental authorities and were therefore held for sale as at 31 December 2018 and in the prior year.

Horizon previously paid a non-refundable deposit of €94,868 (US$100,000) (Note 3) and advanced a loan of €94,868 (US$100,000), as part of this transaction. The loan which is refundable in case of sale not completing, is included in accruals within trade and other payables (Note 23).

The consideration for the acquisition of the Primary Concessions is:

1. €948,680 (US$1,000,000) in cash, less the €94,868 (US$100,000) loan, for a net cash payment of €853,812 (US$900,000) on completion.

2. €640,820 (CAD$1,000,000) worth of common shares in the capital of Horizon ("Horizon Shares") based on Horizon meeting specific issuance terms on completion.

3. A 6% net profits interest on each of the Primary Concessions on completion.

Closing of this transaction is subject to a number of conditions, including certain approvals by the government in Poland, as well as the approval of the TSX Venture Exchange.

The consideration for the acquisition of the Secondary Concessions is €10,000 per concession, plus a 6% net profits interest on each of the Secondary Concessions on completion. Closing of the Secondary Concessions transaction is also subject to a number of conditions including the closing of the acquisition of the Primary Concessions.

22. HELD FOR SALE ASSETS AND LIABILITIES CONTINUED

The assets and liabilities that are up for sale in Poland are as follows:

	Group 2018 €'000	Group 2017 €'000
Assets:		
Exploration and evaluation assets (Note 12)	**–**	–
Liabilities:		
Decommissioning provision	**–**	1,000

Held for sale assets and liabilities are reported under the operating segment 'Poland' in Note 2.

During 2017, due to the protracted nature of approval from the Polish authorities, the Directors decided to fully write off the Polish assets held for sale. However, based on recent information, the Directors believe the Horizon agreements will complete.

During 2017 the held for sale exploration and evaluation assets were impaired by €3,135,621, in order to reduce their carrying value to fair value less costs to sell with the recoverable amount considered to be nil. In the event that the sales do not complete the impairment will not be reversed.

There are no other material income or expenses related to the held for sale assets.

23. TRADE AND OTHER PAYABLES

	Group 2018 €'000	Group 2017 €'000	**Company 2018 €'000**	Company 2017 €'000
Current				
Trade payables	**3,978**	6,505	**1,192**	2,299
Amounts owed to group undertakings (i)	**–**	–	**10,048**	12,299
PAYE / PRSI	**199**	348	**109**	150
Other creditors	**847**	2,426	**840**	2,370
Accruals	**2,162**	4,859	**1,581**	2,814
Director's Loan (Note 32)	**–**	1,669	**–**	1,669
	7,186	15,807	**13,770**	21,601

(i) Amounts owed to Group undertakings are interest free and repayable on demand (Note 32).

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24. DERIVATIVE

	Group 2018 €'000	Group 2017 €'000	**Company 2018 €'000**	Company 2017 €'000
Non-current				
Derivative	**575**	426	**575**	426
	575	426	**575**	426

During 2018, San Leon issued 2,222,222 options to LPL Finance Limited with an exercise price of £0.45 for a period of 4 years. The fair value of the warrants issued of €149,000 has been calculated using the Black-Scholes model. The warrants were issued in connection with financing provided to the Company.

During 2017 San Leon issued 100,000 warrants to Sorena Holdings Limited and 219,298 warrants to 21st Luxury Luxtech Fund Limited with an exercise price of £0.60 for a period of 3 years. San Leon also issued 300,000 warrants to 21st Luxury Luxtech Fund Limited with an exercise price of £0.30 for a period of 4 years. The fair value of the warrants issued has been calculated using the Black-Scholes model.

The key inputs into the valuation model are as follows:

Valuation technique	Significant unobservable inputs	Inter-relationships between the unobservable inputs and fair value measurement
Black-Scholes model	Option strike price of £0.30 to £0.60 (2017: £0.40 to £0.55)	The estimated fair value would increase / (decrease) if:
	Average maturity of 3 to 5 years (2017: 3 to 4 years)	The share price increased / (decreased)
	Risk-free interest rate of 0.1% (2017: 0.1%)	Sterling exchange rate increased / (decreased)
	Share price volatility of 70% (2017: 70%)	The risk free interest rate increased / (decreased)

25. LOANS AND BORROWINGS

Group and Company 2018	**Opening €'000**	**Cash inflows €'000**	**Cash outflows €'000**	**Non-cash €'000**	**Closing €'000**
Changes in financing					
Borrowings – Current	**4,146**	**400**	**(4,565)**	**19**	**–**

Group and Company 2017	Opening €'000	Cash inflows €'000	Cash outflows €'000	Non-cash €'000	Closing €'000
Changes in financing					
Borrowings – Current	6,283	20,228	(19,455)	(2,910)	4,146

25. LOANS AND BORROWINGS CONTINUED

During 2018 the movement with regard to loans and borrowings is detailed below.

YA Global Masters SPV Limited

As at the end of 2017 San Leon owed YA Global Masters SPV Limited €2,707,193 (US$3,246,737) in principal, interest, and fees.

Interest charged for the year was €124,720 (US$145,398).

In July 2018 the loan was repaid in full.

Ken Fetherston

In late 2017 the Company received a loan of €1,000,000 from Ken Fetherston with interest and a fee of €261,178. This loan was fully repaid in January 2018.

Brandon Hill Capital Limited

In 2017, the Company received a number of loans from Brandon Hill Capital Limited totalling €1,240,325 (£1,087,330) inclusive of interest and foreign exchange movement. At 31 December 2017 the amount outstanding to Brandon Hill Capital Limited was €177,380 (£153,177). This was repaid in January 2018.

In 2018, the Company advanced a short-term loan interest free to Brandon Hill Capital Limited of €400,000 (£350,000). This loan was offset against the loan arrangement fees below.

In 2018 the Company was notified of loan arrangement fees totalling €1,173,801 (£1,050,000) relating to finance received in 2016 and 2017 via one of Brandon Hill's clients, LPL Finance Limited. These amounts are included in Trade payables and were paid in 2019.

21st Luxury Luxtech

21st Luxury Luxtech provided two loans during 2017 €1,762,674 (£1,500,000) and €1,339,100 (£1,131,580) and a fee of 10% was charged (5% of which were in warrants) along with interest at 10% per annum (with additional interest due for late payment).

During 2017 €3,742,752 (£3,192,610) was repaid inclusive of fees, interest and foreign exchange movement to fully settle the loan.

Warrants, each representing 1 share in San Leon, were issued as follows: 219,298 at £0.60 and expire 28 February 2020, 300,000 at £0.30 and expire 17 May 2021, and 100,000 at £0.60 and expire 28 February 2020.

LPL Finance Limited

The loan outstanding at the end of 2016 was repaid at the end of March 2017 inclusive of interest and foreign exchange movement totalling €2,797,975 (£2,400,000).

A further loan was taken out in July 2017 for €2,800,336 (£2,500,000) and inclusive of interest and foreign exchange movement €4,661,438 (£4,138,000) was repaid in December 2017.

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26. PROVISIONS FOR LIABILITIES

Group	Decommissioning €'000	Arbitration €'000	Dissenting Shareholders €'000	Total €'000
At 1 January 2017	1,756	21,958	1,864	25,578
Increase / (decrease) in provision during the year	(235)	1,948	–	1,713
Paid during the year	–	(23,906)	(1,716)	(25,622)
Exchange rate adjustment	–	–	(106)	(106)
At 31 December 2017	**1,521**	**–**	**42**	**1,563**
Decrease in provision during the year	(424)	–	–	(424)
Paid during the year	(433)	–	(42)	(475)
At 31 December 2018	**664**	**–**	**–**	**664**
Current	**664**	**–**	**–**	**664**
Non-current	**–**	**–**	**–**	**–**

Decommissioning

The provision for decommissioning costs is recorded at the value of the expenditures expected to be required to settle the Group's future obligations on decommissioning of previously drilled wells.

Arbitration

On 7 November 2016, Avobone N.V. and Avobone Poland B.V. ("Avobone") (together, "Avobone") and the Company settled a number of ongoing disputes between them and between Avobone and certain of San Leon's subsidiaries, including Aurelian Oil & Gas Limited, Aurelian Oil & Gas Poland Sp. z.o.o, Energia Zachod Holdings Sp. z.o.o and AOG Finance Limited, in Poland, Netherlands, Ireland, England & Wales in respect of various matters including a final award in an ICC arbitration dated 21 May 2015. The arbitration award was in relation to the purchase by Aurelian Oil & Gas Limited, San Leon's subsidiary, of Avobone's 10% shares in Energia Zachod Sp z.o.o – the titleholder of the Sierkierki asset.

A total of €23.9 million was paid to Avobone during 2017 (inclusive of extension fees incurred arising from a delay in payments when due, interest, and further legal costs) representing a full discharge of amounts owed.

Dissenting shareholders

Certain Realm Energy International Corporation shareholders exercised rights of dissent under Canadian law not to accept the terms of acquisition in 2011. Under Canadian law, these dissenting shareholders are eligible to receive a cash payment equal to the fair value of their shareholding at acquisition. The provision at 31 December 2017 represented the Directors' estimate of the cash consideration to be paid to those shareholders taking account of the market price of the Realm shares at acquisition.

In 2018 the amount provided at 31 December 2017 was fully paid in cash to the shareholders.

27. SHARE CAPITAL – GROUP AND COMPANY

Rights and obligations attaching to the Ordinary Shares

The Company has no securities in issue conferring special rights with regards control of the Company. All Ordinary Shares rank pari passu, and the rights attaching to the Ordinary Shares (including as to voting and transfer) are as set out in the Company's Articles of Association ("Articles").

	Number of New Ordinary shares €0.01 each	Number of Deferred Ordinary shares €0.0001 each	Authorised Equity €'000
Authorised equity			
At 1 January 2018 and 31 December 2018	2,847,406,025	1,265,259,397,525	155,000
	2,847,406,025	**1,265,259,397,525**	**155,000**

Issued, called up and fully paid:

	Number of New Ordinary shares €0.01 each	Number of Deferred Ordinary shares €0.0001 each	Share capital €'000	Share premium €'000
At 1 January 2017	443,025,720	1,265,259,397,525	130,957	401,503
Issue of shares for cash	43,976,232	–	439	12,008
Issue of shares – debt for equity	6,254,905	–	63	2,217
Exercise of share options	7,000,000	–	70	2,321
At 1 January 2018 and 31 December 2018	**500,256,857**	**1,265,259,397,525**	**131,529**	**418,049**

On 16 January 2017, the Company issued and allotted 3,000,000 New Ordinary Shares of €0.01 each to Robin Management Services and 4,000,000 New Ordinary Shares to DSA Investments Inc. in respect of options exercised relating to the OML 18 transaction. The options were exercised at a price of £0.30 (€0.34) per share.

On 21 June 2017, the Company issued 6,254,905 New Ordinary Shares of €0.01 each to YA II PN Ltd (formerly known as YA Global Master SPV Ltd), an investment fund managed by Yorkville Advisors Global LP ("Yorkville"), pursuant to a SEDA-Backed Loan Agreement, as amended ("SEDA"), which SEDA was entered into and initially announced on 18 April 2013. San Leon and Yorkville agreed to vary the SEDA as follows (the "Settlement"). Under the Settlement, San Leon issued the shares in the Company to Yorkville at a price per share of £0.32 (€0.36) for a reduction in debt of €2,279,432.

On 19 December 2017, the Company issued 43,976,232 New Ordinary Shares of €0.01 each to Toscafund Asset Management LLP, Toscafund GP Limited and related entities in order to repay amounts drawn down by San Leon pursuant to a convertible loan facility of €12,447,982 (£11,000,000). The conversion price per New Ordinary Share was £0.25 (€0.28) each.

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28. RESERVES

The Statement of Changes in Equity outlines the movement in reserves during the year. Further details of these reserves are set out below:

Currency translation reserve

The currency translation reserve comprises all foreign currency differences arising from the translation of the financial statements of foreign operations.

The recycling of the currency translation reserve of €39,207 (2017: €28,478) relates to the realisation of the cumulative foreign currency gains on the disposal of non-core assets.

Share based payments reserve

The share-based payments reserve comprises the fair value of all share options which have been charged over the vesting period, net of the amount relating to share options which have expired, been cancelled and have vested.

Fair value reserve

The fair value reserve comprises the cumulative net change in the fair value of financial assets measured at Fair Value through Other Comprehensive Income until the assets are derecognised.

29. SHARE BASED PAYMENTS

Prior to 31 December 2012, the Group had one share-based payment scheme for executives and senior employees of the Group. In accordance with the provisions of the plan, as approved by shareholders at a previous general meeting, executives and senior employees may be granted options to purchase ordinary shares.

Each share option converts into one ordinary share of San Leon Energy plc on exercise and options do not carry rights to dividends nor voting rights. Options may be exercised at any time from the date of vesting to the date of their expiry. The options vest in tranches subject to the achievement of certain service and non-market performance conditions. Market conditions in relation to the achievement of share price trading levels also apply in the case of certain options granted to the Directors, further details of which are set out in the Directors' Report.

During the first quarter of 2013, this scheme was replaced by a more formal Share Option Plan, which governs all future awards of share options made by San Leon. All employees, and certain Directors and consultants, may from time to time be eligible to receive a discretionary bonus to be awarded in the form of options over San Leon Ordinary shares. Historic options in respect of San Leon shares will continue to be governed by the terms and conditions set out in the historic share-based payments scheme.

The Group's equity share options are equity settled share-based payments as defined in IFRS 2: Share Based Payments. The total share-based payment charge for the year has been calculated based on grant date fair value obtained using an option pricing model with a discount for market conditions applied based on a Monte Carlo simulator analysis where appropriate. The charge for the year is €1,113,692 (€1,382,000) includes the charge for options issued to the Directors of €169,361 (2017: €Nil) and shares to be issued to Directors of €660,000 (2017: €811,514).

29. SHARE BASED PAYMENTS CONTINUED

The movement on outstanding share options and warrants during the year was as follows:

	2018		2017	
	Number of options / warrants	**Weighted average exercise price**	Number of options / warrants	Weighted average exercise price
Balance at beginning of the financial year	**36,415,932**	**£0.767**	41,710,972	£0.873
Granted during the year	**5,222,222**	**£0.450**	2,119,298	£0.410
Expired during the financial year	**(2,603,130)**	**£3.730**	(175,950)	£27.530
Effect of modification during the financial year	**–**	**–**	(238,388)	£10.690
Exercised during the financial year	**–**	**–**	(7,000,000)	£0.300
Balance at end of the financial year	**39,035,024**	**£0.620**	36,415,932	£0.767
Exercisable at end of the financial year	**39,035,024**	**£0.620**	35,987,733	£0.686

The range of exercise prices of outstanding options/warrants at year end is £0.30 to £25.00 (2017: £0.30 to £35.00).

In March 2019 the Company repriced all outstanding options with an exercise price above £0.45 to £0.45.

The weighted average remaining contractual life for options / warrants outstanding at 31 December 2018 is 3.41 years (2017: 2.57 years).

No options were exercised in the current year (2017: 7,000,000).

The following table lists the fair value of options granted and the inputs to the models used to calculate the grant date fair values of awards granted in 2018 and 2017:

	2018	2017
Weighted average fair value of options granted during year	**£0.45**	£0.29
Weighted average share price of options at date of grant	**£0.35**	£0.41
Dividend yield	**0%**	0%
Exercise price	**£0.45**	£0.45
Expected volatility	**70%**	70%
Risk-free interest rate	**1.0% – 1.7%**	1.0% – 1.7%
Expected option life	**7 years**	7 years
Expected early exercise %	**0%**	0%
Model used	**Black-Scholes model**	Black-Scholes model

The expected life used in the model is based on the expectation of management attaching to the option and behavioural considerations and is not necessarily indicative of exercise patterns that may occur. Expected volatility is based on an analysis of the historical volatility of San Leon Energy plc shares and comparable listed entities. The fair value is measured at the date of grant. There are no conditions attaching to the options.

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30. COMMITMENTS AND CONTINGENCIES

(a) Operating leases

Commitments under operating leases are as follows:

Group	**Leasehold Property 2018 €'000**	**Total 2018 €'000**	Total 2017 €'000
Payable:			
Within one year	**333**	**333**	823
Between one and five years	**1,200**	**1,200**	1,200
Over five years	**2,000**	**2,000**	2,325
	3,533	**3,533**	4,348

Company	**Leasehold Property 2018 €'000**	**Total 2018 €'000**	Total 2017 €'000
Payable:			
Within one year	**300**	**300**	300
Between one and five years	**1,200**	**1,200**	1,200
Over five years	**2,000**	**2,000**	2,325
	3,500	**3,500**	3,825

(b) Exploration, evaluation and development activities

The Group has commitments of €Nil (2017: €Nil) in the year ended 31 December 2018 to contribute to its share of exploration and evaluation expenditure in respect of exploration licences and concessions held.

(c) Litigations

The Directors believe that ongoing litigations regarding non-performance on licences, which could result in penalties, will be successfully defended and will not have significant impact on the financial position of the Group.

31. DEFERRED TAX

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
Group	**2018 €'000**	2017 €'000	**2018 €'000**	2017 €'000	**2018 €'000**	2017 €'000
Financial assets – IFRS 9	**–**	–	**(14,094)**	(13,427)	**(14,094)**	(13,427)
Financial assets – other	**97**	–	**–**	–	**97**	–
Tax losses recognised	**3,163**	5,889	**–**	–	**3,163**	5,889
	3,260	5,889	**(14,094)**	(13,427)	**(10,834)**	(7,538)

	2018 €'000	2017 €'000
At 1 January	**(7,538)**	(7,332)
Expense for the year recognised in the income statement (Note 10)	**(2,726)**	(2,195)
Deferred tax on fair value movements in financial assets IFRS 9, Barryroe NPI	**(667)**	1,989
Deferred tax on fair value of other financial assets, Quoted shares	**(35)**	–
Deferred tax on fair value of other financial assets, Unquoted shares	**132**	–
At 31 December	**(10,834)**	(7,538)

	Assets		Liabilities		Net	
Company	**2018 €'000**	2017 €'000	**2018 €'000**	2017 €'000	**2018 €'000**	2017 €'000
Financial assets – net profit Interest	**–**	–	**(14,094)**	(13,427)	**(14,094)**	(13,427)
Tax losses recognised	**3,233**	5,855	**–**	–	**3,233**	5,855
	3,233	5,855	**(14,094)**	(13,427)	**(10,861)**	(7,572)

Unrecognised deferred tax assets

Group	**2018 €'000**	2017 €'000
Tax losses	**12,886**	14,862
Capitalised expenditure	**28,615**	28,257
	41,501	43,119

Deferred tax assets have not been recognised in respect of the above items because it is not probable that future taxable profits will be available against which the Group can utilise these losses.

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32. RELATED PARTY TRANSACTIONS

The Company and Group has related party transactions with i) directors ii) shareholders iii) subsidiaries and iv) other entities with which it has entered into business arrangements (NSP Investments Holdings Ltd, previously referred to as Palomar, and various companies which are a party to the OML 18 transaction)(Note 17). Due to the influence or material interest that these parties have in transactions with the Company or Group they are required to be disclosed and are detailed below.

Property

The Company holds an option to acquire a property at market value from Mr. Fanning. The option has a remaining life of eight years and the option fee of €335,372 (Stg £300,000) is included in other receivables (Note 19) and is refundable when the Company either exercises or terminates the option. Mr. Fanning was paid €324,000 (£288,000) (2017: €137,108 (£120,000)) rent for the use of this property by the Company of which €157,000 (£140,000) related to the period 1 January 2019 to 31 October 2019 and is included in other receivables (Note 19). The property is being provided at a competitive rate and it is an arm's length transaction.

The property is available for use by all staff and consultants requiring overnight accommodation while conducting business on behalf of the Company.

Loan

A summary of the movement in the loan with Mr. Fanning is set out below:

	€'000
At 1 January 2018	(1,669)
Repayments by the Company during the year	1,669
Advances by the Company during the year	632
Interest on loan	2
Exchange rate adjustment	1
At 31 December 2018	**635**

At 31 December 2018 Mr. Fanning owed €635,372 to the Company. This was fully repaid to the Company by the date of these financial statements (Note 34).

Oisín Fanning was paid €1,682,879 in 2018 in respect of personal loan guarantees provided by him in 2017, on behalf of the company.

Oisín Fanning was due 5,590,270 ordinary shares in lieu of 80% of his salary for the period 1 September 2016 to 30 September 2018. These shares were issued on 25 February 2019.

Surplan Limited

The Company and Surplan Limited had a common Director, Raymond King. The Company had a consultancy agreement with Surplan Limited which was paid €342,000 in 2018 (2017: €156,000) including a termination payment of €186,000 (2017: €Nil). Please see the Director's emolument table on page 33 which includes the amount paid to Surplan Limited. Raymond King is the sole Director and shareholder of Surplan Limited. In addition, Raymond King was paid €22,500 (2017: €30,000) Director's fees in 2018.

32. RELATED PARTY TRANSACTIONS CONTINUED

Discovery Energy Limited

The Company and Discovery Energy Limited have a common Director, Ewen Ainsworth. Discovery Energy Limited was paid €23,844 for amounts due for 2018 (2017: €23,057) and disclosed as a pension payment. Please see the Director's emolument table on page 33 which includes the amount paid to Discovery Energy Limited. Ewen Ainsworth is the sole Director and shareholder of Discovery Energy Limited. In addition, Ewen Ainsworth was paid a salary of €339,435 (2017: €344,000) plus Directors' fees of €52,513 (2017: €52,513) in 2018.

Greenbay Energy Resources Limited

San Leon Energy plc and Greenbay Energy Limited have a common Director, Mutiu Sunmonu. San Leon has a consultancy agreement with Greenbay Energy Limited which was paid €78,439 for amounts due for 2018 (2017: €80,573). Please see the Director's emolument table on page 33 which includes the amount paid to Greenbay Energy Limited. In addition, Mutiu Sunmonu was paid Director fees of €58,348 (2017: 58,348) in 2018.

Linda Beal Consulting LLP

Linda Beal Consulting LLP provides consultancy services to San Leon Energy plc. Linda Beal Consulting LLP was paid €39,633 for amounts due for 2018 (2017: €Nil). Please see the Director's emolument table on page 33 which includes the amount paid to Linda Beal Consulting LLP. In addition, Linda Beal was paid Director fees of €48,106 (2017: €Nil) in 2018.

Brandon Hill Capital Limited

Brandon Hill Capital Limited is a related party on the basis that it and its parent company OWG PLC are shareholders in the Company.

In 2017, the Company received a number of loans from Brandon Hill Capital Limited totalling €1,240,325 (£1,087,330) inclusive of interest and foreign exchange movement. At 31 December 2017 the amount outstanding to Brandon Hill Capital Limited was €177,380 (£153,177). This was repaid in January 2018.

In 2018, the Company advanced a short-term loan to Brandon Hill Capital Limited of €400,000 (£350,000). This loan was offset against the loan arrangement fees below.

In 2018 the Company was notified of loan arrangement fees totalling €1,173,801 (£1,050,000) relating to finance received in 2016 and 2017 via one of Brandon Hill's clients, LPL Finance Limited. These amounts are included in Trade payables and were paid in 2019.

Palomar Natural Resources (Netherlands) B.V. / NSP Investments Holdings Ltd

On 18 November 2016, the Company announced the sale of its (i) 35% interest in TSH Energy Joint Venture B.V. (TSH) and (ii) 35% interest in Poznan Energy B.V. (Poznan) to Palomar Natural Resources (Palomar). This divested the Company's interest in the Rawicz and Siekierki fields respectively. A 10% net profit interest was retained in the Poznan assets. Palomar is regarded as a related party as it already held the remaining interest in both TSH and Poznan.

The total cash consideration due to the Company for the sale of its 35% interest in TSH was €8.6 million (US$9.0 million), of which €4.3 million (US$4.5 million) was received in November 2016. The balance of €4.3 million (US$4.5 million) plus accrued interest (the "Amount Due") was due to paid to San Leon on or before 1 October 2017. As announced on 2 January 2018 under a novation agreement and extension agreement dated 22 December 2017, the Amount Due is now the full responsibility of NSP Investments Holdings Ltd, a BVI registered company that holds a 35% interest in TSH. San Leon also announced that it had received a further €1.3 million (US$1.5 million) payment of the Amount Due. The Company was due to receive a further €2.9 million (US$3.6 million), including an extension fee plus any further accrued interest on or before 1 September 2018. The Company had not received the €2.9 million (US$3.6 million) by 31 December 2018 and, provided for expected credit losses of €3.1 million (US$3.4 million) and reversed accrued interest receivable in 2018 of €0.2 million (US$0.2 million).

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018
CONTINUED

32. RELATED PARTY TRANSACTIONS CONTINUED

Toscafund Asset Management LLP

Toscafund Asset Management LLP (Toscafund) is a related party on the basis that funds managed by Toscafund hold a substantial shareholding in San Leon Energy plc and the substantive transactions which the parties entered into during 2016 and as more fully described below detailing the purchase of the indirect interest in OML 18.

OML 18

In September 2016, the Company secured an indirect economic interest in Oil Mining Lease 18 ("OML 18"), onshore Nigeria.

The Company undertook a number of steps to effect this purchase. Midwestern Leon Petroleum Limited ("MLPL"), a company incorporated in Mauritius of which San Leon Nigeria B.V. has a 40%. shareholding, was established as a special purpose vehicle to complete the transaction by purchasing all of the shares in Martwestern Energy Limited ("Martwestern"), a company incorporated in Nigeria.

Martwestern holds a 50%. shareholding in Eroton Exploration and Production Company Limited ("Eroton"), a company incorporated in Nigeria and the operator of OML 18, and it also holds an initial 98%. economic interest in Eroton. To partly fund the purchase of 100%. of the shares of Martwestern, MLPL borrowed €156.6 million (US$174.5 million) in incremental amounts by issuing loan notes with a coupon of 17%. ("Loan Notes"). Midwestern Oil and Gas Company Limited is the 60%. shareholder of MLPL and transferred its shares in Martwestern to MLPL as part of the full transaction. Following its placing in September 2016, San Leon became beneficiary and holder of all Loan Notes issued by MLPL. San Leon is also a beneficiary of any dividends that will be paid by MLPL as a 40%. shareholder in MLPL but the Loan Notes repayments take priority over any dividend payments made to the MLPL shareholders. The economic effect of this structure is that San Leon has an initial indirect economic interest of 10.584%. in OML 18. Shareholders will note this is higher than the percentage interest anticipated by San Leon at the time of the acquisition. There have been no further purchases or payments by San Leon but this revised percentage is based on a reassessment and recalculation of the various parties' interests in OML 18 which has resulted in Martwestern's economic interest in Eroton now standing at 98%.

To date, San Leon has received aggregate payments under the Loan Notes totalling €100.1 million (US$116.5 million). An expected credit loss of €8.1 million (US$9.7 million) was recognised on 1 January 2018 on adoption of IFRS9, and reduced to €4.8 million (US$5.5 million) at 31 December 2018.

To make payment of principal and interest due under the Loan Notes, MLPL is dependent on Eroton making dividend payments to Martwestern which in turn makes dividend payments to MLPL. MLPL will use the receipt of dividends to make Loan Notes payments to San Leon. There are various undertakings, guarantees and security in place with Eroton, Martwestern and Midwestern with regard to the Loan Notes, as more fully described below, in the event that MLPL is not in a position to pay the Loan Notes from dividends received.

The Loan Notes have been secured with undertakings by both Eroton and Martwestern, including not to take any action within their control which would result in default by MLPL, and to act honestly and in good faith. In addition, to the extent practicable and subject to law, use commercially reasonable efforts to declare dividends in order that MLPL can satisfy its obligations under the Loan Notes instrument.

The shares held by MLPL in Martwestern have also been pledged as security to the obligations under the Loan Notes.

32. RELATED PARTY TRANSACTIONS CONTINUED

Midwestern and Mart Resources Limited jointly and severally guaranteed the payment of the Loan Notes following a default and to make immediate payment and performance of all obligations to holders of the Loan Notes.

While San Leon is also a beneficiary of any dividends that will be paid by MLPL as a 40% shareholder in MLPL, the Loan Notes repayments must take priority over dividend payments made by MLPL to shareholders with a minimum 65% cash sweep of available funds for a period of four years in order to redeem the Loan Notes.

There are shareholders agreements which govern the relationship between Midwestern and San Leon, and Bilton and Martwestern regulating the rights and obligations with respect to MLPL, Martwestern and Eroton. These agreements cover the appointment of Directors and unanimous approval for major decisions.

A Master Services Agreement exists which entitles San Leon Energy Nigeria BV to provide specific services to Eroton and Midwestern for their activities.

During 2018 San Leon entered into an agreement with Eroton for the provision of drilling technical and management services with estimated consideration for the services of US$6 million until the end of 2020.

Further extensive details can be found on the Company's website which contains a copy of the Admission Document at: http://www.sanleonenergy.com/media/2491705/admission_document_2016.pdf

2017

As a consequence of MLPL not being in receipt of dividends in 2017, MLPL had to enter into a loan during 2017 and subsequently in order to be able to meet its obligations under the Loan Notes and make payments to San Leon. During 2017 San Leon received total payments under the Loan Notes totalling €34.3 million (US$39.6 million). All payments during 2017 were received by the due date and in accordance with the terms of the Loan Notes. The payments received during 2017 represent interest and no principal on the Loan Notes was repaid.

2018

During 2018 San Leon received total payments under the Loan Notes totalling €56.4 million (US$66.2 million). The payments received during 2018 represent principal of €27.6 million (US$32.2 million) and interest of €28.8 million (US$34.0 million) on the Loan Notes was repaid. MLPL also entered into loan agreements with third parties to enable it to make the repayments during 2018.

Key management

Key management is deemed to comprise the Board of Directors. The total remuneration paid to key management was as follows:

	2018 €'000	2017 €'000
Salary and emoluments	**1,555**	1,349
Bonuses	**753**	631
Shares to be issued in lieu of salary	**660**	812
Fees and consulting services	**701**	636
Pension	**84**	84
Termination payments	**186**	–
Benefits	**29**	45
Share based payment expense	**169**	–
	4,137	3,557

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018
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32. RELATED PARTY TRANSACTIONS CONTINUED

Company

Transactions with subsidiaries
The Company has a related party relationship with its subsidiaries and associates. The Company and its subsidiaries and associates, in the ordinary course of business, enter into various sales, purchase and service transactions with joint operations in which the Group has a material interest. These transactions are under terms that are no less favourable to the Group than those arranged with third parties.

At 31 December 2018, the Company is owed €133.3 million (2017: €133.2 million) by its subsidiaries in respect of funds advanced to them and expenses discharged by the Company on their behalf. An impairment provision of €130.5 million (2017: €130.9 million) against these debts has been provided as at the year end. The credit-impaired balances relate to the funding of historical investments in subsidiaries to hold assets and businesses which have been abandoned or discontinued in prior periods and from which no economic value is expected. The expected credit loss on remaining loans to subsidiaries is not considered material. The Company owes €10.0 million (2017: €12.3 million) to subsidiaries in respect of funds received by and services provided to the Company.

	€'000
Loss allowance at 31 December 2017 under IAS 39 and IFRS 9*	**130,914**
Expected credit losses released	(404)
Loss allowance at 31 December 2018 under IFRS 9	**130,510**

* Loss allowance at 31 December 2017 under IAS 39 and IFRS 9 is the same as the loans and are fully provided for.

33. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

The Group and Company's principal financial instruments comprise trade receivables, other financial assets, trade payables and cash and cash equivalents.

The main purpose of these financial instruments is to provide finance for the Group and Company's operations.

The Group and Company's financial assets and liabilities are classified as:

- Loans and receivables: all amounts due to and from subsidiaries and cash and cash equivalents as disclosed in the statement of financial position;
- Financial assets: FVTPL – net profit interest as described in Note 17;
- Financial assets: FVOCI – equity instrument – unquoted investments and quoted investments as described in Note 17;
- Liabilities at amortised cost: all trade and other payables and loans and borrowings as disclosed in the statement of financial position.

33. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT CONTINUED

The main risks arising from the Group and Company's financial instruments are foreign currency risk, credit risk, liquidity risk, interest rate risk and capital management. Management reviews and agrees policies for managing each of these risks in a non-speculative manner which are summarised below.

(a) Currency risk

The Group is exposed to foreign currency risk on transactions denominated in a currency other than the relevant functional currency of the entities of the Group which consist of Euro, Sterling, US Dollars, Polish Zloty, Moroccan Dirhams and Canadian Dollars. The Euro is the presentation currency for financial reporting and budgeting. The Group manages its exposure by matching receipts and payments in the same currency and monitoring the residual net cash position. During the years ended 31 December 2018 and 2017, the Group did not utilise either forward currency contracts or other derivatives to manage foreign currency risk.

At 31 December 2018, the Group's principal exposure to foreign currency risk was as follows:

	Denominated in GBP£ €'000	**Denominated in US$ €'000**	**Denominated in PLN €'000**	**Denominated in CAD €'000**	**Denominated in MAD €'000**
Financial assets – OML 18 (Note 17)	**–**	**112,419**	**–**	**–**	**–**
Financial assets – Barryroe 4.5% net profit interest (Note 17)	**–**	**44,665**	**–**	**–**	**–**
Financial assets – Quoted shares (Note 17)	**–**	**–**	**–**	**–**	**–**
Trade and other receivables (Note 19)	**1,272**	**–**	**422**	**–**	**–**
Trade and other payables (Note 23)	**(1,143)**	**(1,082)**	**(494)**	**(18)**	**(316)**
Provisions (Note 26)	**–**	**–**	**(664)**	**–**	**–**
Loans and borrowings (payable within one year) (Note 25)	**–**	**–**	**–**	**–**	**–**
Cash and cash equivalents (Note 21)	**1,669**	**33,232**	**331**	**–**	**1**
Total 2018	**1,798**	**189,234**	**(405)**	**(18)**	**(315)**

At 31 December 2017, the Group's principal exposure to foreign currency risk was as follows:

	Denominated in GBP£ €'000	Denominated in US$ €'000	Denominated in PLN €'000	Denominated in CAD €'000	Denominated in MAD €'000
Financial assets – OML 18 (Note 17)	–	134,825	–	–	–
Financial assets – Barryroe 4.5% net profit interest (Note 17)	–	42,643	–	–	–
Financial assets – Quoted shares (Note 17)	29	–	–	–	–
Trade and other receivables (Note 19)	635	2,999	418	–	–
Trade and other payables (Note 23)	(1,788)	(2,509)	(572)	(82)	(240)
Provisions (Note 26)	–	–	(2,521)	(42)	–
Loans and borrowings (payable within one year) (Note 25)	(177)	(2,707)	–	–	–
Cash and cash equivalents (Note 21)	26	5,866	79	3	1
Total 2017	**(1,275)**	**181,117**	**(2,596)**	**(121)**	**(239)**

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FOR THE YEAR ENDED 31 DECEMBER 2018
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33. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT CONTINUED

At 31 December 2018, the Company's principal exposure to foreign currency risk was as follows:

	Denominated in GBP£ €'000	**Denominated in US$ €'000**	**Denominated in PLN €'000**	**Denominated in CAD €'000**	**Denominated in MAD €'000**
Financial assets – OML 18 (Note 17)	**–**	**112,419**	**–**	**–**	**–**
Financial assets – Barryroe 4.5% net profit interest (Note 17)	**–**	**44,665**	**–**	**–**	**–**
Financial assets – Quoted shares (Note 17)	**–**	**–**	**–**	**–**	**–**
Trade and other receivables (Note 19)	**1,268**	**–**	**–**	**–**	**–**
Trade and other payables (Note 23)	**(1,044)**	**(83)**	**–**	**–**	**–**
Loans and borrowings (payable within one year) (Note 25)	**–**	**–**	**–**	**–**	**–**
Cash and cash equivalents (Note 21)	**1,566**	**33,213**	**141**	**–**	**1**
Total 2018	**1,790**	**190,214**	**141**	**–**	**1**

At 31 December 2017, the Company's principal exposure to foreign currency risk was as follows:

	Denominated in GBP£ €'000	Denominated in US$ €'000	Denominated in PLN €'000	Denominated in CAD €'000	Denominated in MAD €'000
Financial assets – OML 18 (Note 17)	–	134,825	–	–	–
Financial assets – Barryroe 4.5% net profit interest (Note 17)	–	42,643	–	–	–
Financial assets – Quoted shares (Note 17)	29	–	–	–	–
Trade and other receivables (Note 19)	497	–	–	–	–
Trade and other payables (Note 23)	(1,689)	(1,851)	(183)	–	(14)
Loans and borrowings (payable within one year) (Note 25)	(177)	(2,707)	–	–	–
Cash and cash equivalents (Note 21)	26	5,845	–	–	1
Total 2017	**(1,314)**	**178,755**	**(183)**	**–**	**(13)**

The euro exchange rates used in the preparation of the financial statements were as follows:

	2018 Average rate	**2018 Closing rate**	2017 Average rate	2017 Closing rate
Sterling	**0.88471**	**0.89453**	0.87667	0.88723
US Dollars	**1.18100**	**1.145**	1.12970	1.19930
Polish Zloty	**4.30140**	**4.30140**	4.25700	4.17700
Canadian Dollars	**1.52940**	**1.56050**	1.46470	1.50390
Moroccan Dirhams	**11.07283**	**10.92596**	11.01000	11.21970

33. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT CONTINUED

Sensitivity analysis

If the Euro increased by 1% in value against the above currencies, the Group's profit for the year would decrease and equity at year end would increase by €1,884,085. If the Euro decreased by 1% in value against the above currencies, the Group's profit for the year would increase and equity at year end would decrease by €1,902,834.

If the Euro increased by 1% in value against the above currencies, the Company's profit for the year would decrease and equity at year end would increase by €1,902,414. If the Euro decreased by 1% in value against the above currencies, the Company's profit for the year would increase and equity at year end would decrease by €1,921,438.

(b) Credit risk

Credit risk refers to the risk that any counter-party will default on its contractual obligations resulting in financial loss to the Group.

The Group and Company's financial assets excluding financial assets – Net Profit Interest, see (f) Fair values comprise trade and other receivables, cash and cash equivalents and OML 18.

The maximum financial exposure due to credit risk on the Group's financial assets not subject to impairment of IFRS 9, representing the sum of cash and cash equivalents, trade and other receivables and other current assets, as at 31 December 2018 was €37.9 million (2017: €12.7 million).

Amount of maximum exposure to credit risk for financial assets not subject to impairment of IFRS 9 or comment to state there is none.

Trade and other receivables

Within trade and other receivables there are no significant exposure to credit risk on these assets. The credit risk on amounts receivable from joint operating partners is managed by agreeing budgets in advance with partners and where appropriate collecting any material share of exploration costs from partners in advance of completing the exploration work programme. Amounts in trade and other receivables impaired during 2018 are explained in Note 19 and management believes that the existing sums are still collectable.

OML 18

The OML 18 transaction comprised the €156.6 million (US$174.5 million) Loan Notes as detailed in Note 17. The credit risk is managed via various undertakings, guarantees, a pledge over shares and the mechanism whereby MLPL prioritises payment of sums due under the Loan Notes. Given the size and quality of the OML 18 oil and gas asset the main credit risk is regarded as the timing of payments by MLPL which is dependent on dividend distributions by Eroton rather than being unable to pay the total quantum due under the Loan Notes. To date Eroton have been unable to make a dividend distribution. Consequently, MLPL had to enter into a loan in 2017 and subsequently, in order to be able to meet its obligations under the Loan Notes and make payments to San Leon.

The credit risk associated with the MLPL Loan Notes is not regarded as low and despite quarterly payments being largely received to date, however not always on time, and given other considerations, leading the Company to determine that providing for a loss over the lifetime of the loan is appropriate. Establishing an expected credit loss over the lifetime of the loan for a single receivable requires significant judgement, as there is limited relevant historical data in the Company, and no obvious reliable market data to benchmark. The factors that were considered in coming to the conclusion of a lifetime expected credit loss provision are explained on the following page.

NOTES TO THE FINANCIAL STATEMENTS

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33. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT CONTINUED

The credit risk of the instrument needs to be evaluated without consideration of collateral. Financial instruments are not considered to have low credit risk because that risk is mitigated by collateral.

MLPL is not considered to be in financial difficulty and is expected to repay all interest and principal due under the loan agreement. The increase in credit risk identified does not change the prevailing expectation that the loan will be recovered in full.

As the asset is not credit-impaired, the lifetime expected credit loss is recorded as a separate provision on the Statement of Financial Position and remeasured at each reporting date. The MLPL loan asset will continue to be held using the effective interest rate method.

The consideration of expected credit losses for this asset is set out in Note 17.

In the opinion of the directors there is no difference between the carrying amount of the MLPL loan and its fair value.

Cash and cash equivalents

The credit risk on cash and cash equivalents is considered limited because the counterparties are banks with high credit-ratings assigned by international credit rating agencies. The Group also holds limited funds for day to day operational purposes with Irish banking institutions which are subject to guarantee by the Irish government. The Group and Company's maximum exposure to credit risk is equal to the carrying amount of cash and cash equivalents in its consolidated and Company statement of financial position. The Group does not expect any counterparty to fail to meet its obligations.

Details of cash deposits, which are all for terms of one month or less are as follows:

	Group	Group	**Company**	Company
	2018 € 000	2017 € 000	**2018 € 000**	2017 € 000
Euro	**367**	2,155	**171**	1,946
Sterling	**1,669**	27	**1,566**	26
US Dollar	**33,232**	5,866	**33,213**	5,843
Polish Zloty	**331**	79	**141**	–
Canadian Dollar	**–**	3	**–**	–
Moroccan Dirhams	**1**	1	**1**	1
	35,600	8,131	**35,092**	7,816

33. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT CONTINUED

(c) Liquidity risk management

Liquidity risk is the risk that the Group will not have sufficient funds to meet liabilities as they fall due. The Group manages liquidity risk by maintaining adequate cash reserves and by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. Cash forecasts are produced to identify the liquidity requirements of the Group. Surplus cash is placed on deposit in accordance with limits and counterparties agreed by the Board, with the objective to maximise return on funds whilst ensuring that the short term cash requirements of the Group are maintained.

All cash and cash equivalents are due on demand. All trade and other receivables and trade and other payables are due within three months.

The financial liabilities at 31 December 2018 are as follows:

Group	**Less than 1 year €'000**	**One to two years €'000**	**Two to five years €'000**	**Total €'000**
Trade and other payables and (Note 23)	**7,186**	**–**	**–**	**7,186**
Loans and borrowings (Note 25)	**–**	**–**	**–**	**–**
	7,186	**–**	**–**	**7,186**

Company	**Less than 1 year €'000**	**One to two years €'000**	**Two to five years €'000**	**Total €'000**
Trade and other payables (Note 23)	**13,770**	**–**	**–**	**13,770**
Loans and borrowings (Note 25)	**–**	**–**	**–**	**–**
	13,770	**–**	**–**	**13,770**

The financial liabilities at 31 December 2017 are as follows:

Group	**Less than 1 year €'000**	**One to two years €'000**	**Two to five years €'000**	**Total €'000**
Trade and other payables and (Note 23)	15,807	–	–	15,807
Loans and borrowings (Note 25)	4,146	–	–	4,146
	19,953	–	–	19,953

Company	**Less than 1 year €'000**	**One to two years €'000**	**Two to five years €'000**	**Total €'000**
Trade and other payables (Note 23)	21,601	–	–	21,601
Loans and borrowings (Note 25)	4,146	–	–	4,146
	25,747	–	–	25,747

The contractual cashflows are equal to the carrying value of the financial liabilities included in the tables above.

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33. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT CONTINUED

(d) Interest rate risk

The Group and Company's exposure to the risk of changes in market interest rates relates primarily to the Group and Company's holdings of cash and short-term deposits.

It is the Group and Company's policy to place surplus funds on short term deposit in order to maximise interest earned whilst maintaining adequate short-term liquidity for operational requirements.

The Loan Notes referred to in Note 17 attract a 17% fixed rate of contractual interest and as a consequence there is no interest rate exposure.

(e) Capital management risk

The Group and Company manage its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The Group and Company manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust its capital structure, the Group may adjust or issue new shares or raise debt. No changes were made in the objectives, policies or processes during the years ended 31 December 2018 and 31 December 2017. The capital structure of the Group consists of equity attributable to equity holders of the parent, comprising issued capital, reserves and retained losses as disclosed in the consolidated statement of changes in equity.

The Group net debt and equity, and the net debt to equity ratio at 31 December 2018 was as follows:

	2018 €'000	2017 €'000
Total Liabilities	**19,259**	30,480
Less: cash and cash equivalents	**35,600**	8,131
Adjusted net debt	**(16,341)**	22,400
Total equity	**228,078**	225,341
Adjusted net debt to equity ratio	**(0.07)**	0.10

33. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT CONTINUED

(f) Financial assets and liabilities by category

The following table sets out the carrying value of all the financial assets and liabilities held at 31 December 2018:

Group	Fair value 31 December 2018 €'000	Carrying amount 31 December 2018 €'000	Level 1 31 December 2018 €'000	Level 2 31 December 2018 €'000	Level 3^ 31 December 2018 €'000
Financial assets					
OML 18# (Note 17)	**112,419**	**112,419**	–	–	**112,419**
Barryroe NPI (Note 17)	**44,665**	**44,665**	–	–	**44,665**
Quoted shares (Note 17)	–	–	–	–	–
Unquoted shares (Note 17)	**2,293**	**2,293**	–	–	**2,293**
Poznan NPI (Note 17)	–	–	–	–	–
Gora NPI (Note 17)	–	–	–	–	–
Liesa NPI (Note 17)	–	–	–	–	–
Trade receivables* (Note 19)	**33**	**33**	–	–	–
Other financial asset* (Note 20)	–	–	–	–	–
Cash and cash equivalents* (Note 21)	**35,600**	**35,600**	–	–	–
Other debtors* (Note 19)	**958**	**958**	–	–	–
Financial liabilities					
Trade payables* (Note 23)	**(3,978)**	**(3,978)**	–	–	–
Other creditors* (Note 23)	**(847)**	**(847)**	–	–	–
Derivative (Note 24)	**(575)**	**(575)**	–	–	**(575)**
At 31 December 2018	**190,568**	**190,568**	–	–	**158,802**

There has been no change to the assumptions underlying the determination of fair value of the OML 18 loan since initial recognition. Therefore, the carrying amount arising from the application of the effective interest rate method approximates to the fair value.

* The Group has not disclosed the fair value of financial instruments such as short-term receivables and payables, as it is considered that their carrying amounts are a reasonable approximation of their fair values.

^ For detailed disclosures on the valuation techniques of level 3 disclosures see the note referenced above.

Company	Fair value 31 December 2018 €'000	Carrying amount 31 December 2018 €'000	Level 1 31 December 2018 €'000	Level 2 31 December 2018 €'000	Level 3^ 31 December 2018 €'000
Financial assets					
OML 18# (Note 17)	**112,419**	**112,419**	–	–	**112,419**
Barryroe NPI (Note 17)	**44,665**	**44,665**	–	–	**44,665**
Quoted shares (Note 17)	–	–	–	–	–
Unquoted shares (Note 17)	**2,293**	**2,293**	–	–	**2,293**
Trade receivables* (Note 19)	**14**	**14**	–	–	–
Cash and cash equivalents* (Note 21)	**35,092**	**35,092**	–	–	–
Other debtors* (Note 19)	**751**	**751**	–	–	–
Financial liabilities					
Trade payables* (Note 23)	**(1,192)**	**(1,192)**	–	–	–
Other creditors* (Note 23)	**(840)**	**(840)**	–	–	–
Derivative (Note 24)	**(575)**	**(575)**	–	–	**(575)**
At 31 December 2018	**192,627**	**192,627**	–	–	**158,802**

There has been no change to the assumptions underlying the determination of fair value of the OML 18 loan since initial recognition. Therefore, the carrying amount arising from the application of the effective interest rate method approximates to the fair value.

* The Group has not disclosed the fair value of financial instruments such as short-term receivables and payables, as it is considered that their carrying amounts are a reasonable approximation of their fair values.

^ For detailed disclosures on the valuation techniques of level 3 disclosures see the note referenced above.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018
CONTINUED

33. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT CONTINUED

During the period ended 31 December 2018, there were no significant changes in the business or economic circumstances that affect the fair value of financial assets and liabilities, no reclassifications and no transfers between levels of the fair value hierarchy used in measuring the fair value of the financial instruments.

The following table sets out the carrying value of all the financial assets and liabilities held at 31 December 2017:

Group	Fair value 31 December 2017 €'000	Carrying amount 31 December 2017 €'000	Level 1 31 December 2017 €'000	Level 2 31 December 2017 €'000	Level 3^ 31 December 2017 €'000
Financial assets					
OML 18 (Note 17)	134,825	134,825	–	–	134,825
Barryroe NPI (Note 17)	42,643	42,643	–	–	42,643
Quoted shares (Note 17)	29	29	29	–	–
Unquoted shares (Note 17)	2,189	2,189	–	–	2,189
Trade receivables* (Note 19)	219	219	–	–	–
Other financial asset* (Note 20)	–	–	–	–	–
Cash and cash equivalents* (Note 21)	8,131	8,131	–	–	–
Other debtors* (Note 19)	3,778	3,778	–	–	–
Financial liabilities					
Trade payables* (Note 23)	(6,505)	(6,505)	–	–	–
Other creditors* (Note 23)	(2,426)	(2,426)	–	–	–
Derivative (Note 24)	(426)	(426)	–	–	–
At 31 December 2017	182,457	182,457	29	–	179,657

* The Group has not disclosed the fair value of financial instruments such as short term receivables and payables, as it is considered that their carrying amounts are a reasonable approximation of their fair values.

^ For detailed disclosures on the valuation techniques of level 3 disclosures see the note referenced above.

33. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT CONTINUED

Company	Fair value 31 December 2017 €'000	Carrying amount 31 December 2017 €'000	Level 1 31 December 2017 €'000	Level 2 31 December 2017 €'000	Level 3^ 31 December 2017 €'000
Financial assets					
OML 18 (Note 17)	134,825	134,825	–	–	134,825
Barryroe NPI (Note 17)	42,643	42,643	–	–	42,643
Quoted shares (Note 17)	29	29	29	–	–
Unquoted shares (Note 17)	2,189	2,189	–	–	2,189
Trade receivables* (Note 19)	12	12	–	–	–
Cash and cash equivalents* (Note 21)	7,816	7,816	–	–	–
Other debtors* (Note 19)	598	598	–	–	–
Financial liabilities					
Trade payables* (Note 23)	(2,299)	(2,299)	–	–	–
Derivative (Note 24)	(426)	(426)	–	–	–
At 31 December 2017	185,387	185,387	29	–	179,657

* The Group has not disclosed the fair value of financial instruments such as short term receivables and payables, as it is considered that their carrying amounts are a reasonable approximation of their fair values.

^ For detailed disclosures on the valuation techniques of level 3 disclosures see the note referenced above.

During the period ended 31 December 2017, there were no significant changes in the business or economic circumstances that affect the fair value of financial assets and liabilities, no reclassifications and no transfers between levels of the fair value hierarchy used in measuring the fair value of the financial instruments.

(g) Hedging

At 31 December 2018 and 31 December 2017, the Group and Company had no outstanding contracts designated as hedges.

34. SUBSEQUENT EVENTS

Functional and presentation currency

On 1 January 2019 the Company's functional currency changed to US$ due to a change in the way in which it transacts. The Company and the Group's presentation currency were changed to US$ in order to align presentation and reporting currency of the parent for periods commencing on or after 1 January 2019.

Reduction of Capital and tender buyback

On 22 March 2019 the Company announced the result of the Tender Offer, being an offer by the Company to purchase shares from shareholders at 46p per share set out in the shareholder circular published by the Company on 20 February 2019 (the "Circular").

The maximum number of Ordinary Shares authorised by shareholders under the Tender Offer, being 50,475,000 Ordinary Shares, was acquired for a total cost of €26.8 million ($US30.5 million). This represented approximately 9.97% of the issued ordinary share capital of the Company, at the date of the announcement.

The Tender Offer was oversubscribed, with a total of 81,177,508 Ordinary Shares validly tendered by Qualifying Shareholders. Qualifying Shareholders who tendered Ordinary Shares equal to or less than their Individual Basic Entitlement had their tender accepted in full. Qualifying Shareholders who validly tendered in excess of their Individual Basic Entitlement had their tender accepted in respect of their Individual Basic Entitlement (being approximately 9.97% of their shareholding) plus approximately 50.23% of the number of Ordinary Shares in excess of their Individual Basic Entitlement that they validly tendered.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018
CONTINUED

34. SUBSEQUENT EVENTS CONTINUED

All proceeds payable under the Tender Offer to the Company's shareholders was transferred to Computershare on 23 March for distribution to the shareholders.

As set out in the Circular, the Ordinary Shares were purchased by Cantor Fitzgerald Europe pursuant to the Tender Offer and the Company purchased such Ordinary Shares from Cantor Fitzgerald Europe under the terms of the Repurchase Agreement described in the Circular.

San Leon also announced that, pursuant to the exercise of warrants, an application was made for an additional 250,000 ordinary shares in the Company to be admitted to trading on AIM ("Admission"). Admission took place on 26 March 2019. Following the issue of the new Ordinary Shares, the Company had 506,097,127 ordinary shares in issue (at the time of the Circular there were 505,847,127 Ordinary Shares in issue). No ordinary shares are held in treasury.

The Company cancelled the Ordinary Shares purchased by it under the Repurchase Agreement, reducing the number of Ordinary Shares in issue from 506,097,127 Ordinary Shares to 455,622,127 Ordinary Shares (the "Cancellation").

Option and warrant repricing

In March 2019 the Company repriced all outstanding options with an exercise price above £0.45 to £0.45.

Oisín Fanning

Oisín Fanning was due 5,590,270 ordinary shares in lieu of his 80% of his salary for the period from 30 September 2016 to 30 September 2018. These shares were issued on 25 February 2019.

At 31 December 2018 Mr. Fanning owed €633,217 to the Company. This was fully repaid to the Company by the date of these financial statements (Note 32).

Resignation of Executive Director

On 17 May 2019 the Company announced the resignation of Mr. Ewen Ainsworth with effect from 30 June 2019.

Appointment of Executive Director and Chief Financial Officer

The appointment of Ms. Lisa Mitchell as an Executive Director and Chief Financial Officer of the Company was announced on 17 May 2019 with effect from 30 June 2019.

35. COMPARATIVE AMOUNTS

Comparative amounts were regrouped, where necessary, on the same basis as in the current period.

36. APPROVAL OF FINANCIAL STATEMENTS

The Financial Statements were approved by the Board on 26 June 2019.

CORPORATE INFORMATION

Directors	Mutiu Sunmonu (Non-Executive Chairman) Oisín Fanning (Chief Executive Officer) Joel Price (Chief Operating Officer) Alan Campbell (Commercial and Business Development Director) Ewen Ainsworth (Finance Director) Raymond King (Non-Executive Director) resigned 28 September 2018 Mark Phillips (Non-Executive Director) Linda Beal (Non-Executive Director) appointed 16 January 2018 Bill Higgs (Non-Executive Director) appointed 22 May 2018		
Registered Office	First Floor Wilton Park House Wilton Place, Dublin 2		
Secretary	Raymond King (resigned 17 January 2019) Alan Campbell (appointed 17 January 2019)		
Auditor	KPMG Chartered Accountants, Statutory Audit Firm 1 Stokes Place, St Stephen's Green Dublin 2		
Principal Bankers	Ulster Bank Ireland DAC 33 College Green, Dublin 2		
Solicitors	Whitney Moore Solicitors Wilton Park House Dublin 2	David M Turner & Co Solicitors 32 Lower Abbey Street Dublin	Fieldfisher LLP 2 Swan Lane London EC4R 3TT
Nominated Advisor and Joint Broker	Cantor Fitzgerald Europe 1 Churchill Place, Canary Wharf London E14 5EF		
Joint Stockbrokers	Whitman Howard Limited First floor, Connaught House 1-3 Mount Street London W1K 3NB	Brandon Hill Capital 1 Tudor Street London EC4Y 0AH	
Registrars	Computershare Investor Services (Ireland) Limited 3100 Lake Drive, Citywest Business Campus, Dublin 24		
Public Relations	Vigo Communications One Berkeley Street London W1J 8DJ	Plunkett Communications 62b York Road Dun Laoghaire Co. Dublin	
Registered Number	237825		

GLOSSARY

2C	Best estimate of Contingent Resources
AIM	The London Stock Exchange's AIM market
AIM Rules	AIM Rules for Companies
BCF or bcf	Billion cubic feet
Bilton	Bilton Energy Limited
B.V.	Dutch private limited company
BVI	British Virgin Islands
CPR	Competent Person's Report
Eroton	Eroton Exploration and Production Company Limited
€'000	Euro, thousands
ESM	European Stability Mechanism
FSO	Floating Storage and Offloading
Group	San Leon and its subsidiaries
LLP	Limited liability partnership
Loan Notes	$174.5 million principal amount of 17% fixed rate loan notes acquired by San Leon pursuant to the amended and restated loan note instrument dated September 30, 2016 executed and issued by Midwestern Leon Petroleum Limited
Ltd or limited	A private limited company incorporated under the laws of England and Wales, Scotland, certain Commonwealth countries and Ireland
m	Metres
'm	Millions
Martwestern	Martwestern Energy Limited
MLPL	Midwestern Leon Petroleum Limited
MSA	Master Services Agreement
mmbbL	Million barrels
Nomad	A company that has been approved as a nominated advisor for AIM by the London Stock Exchange
NNPC	Nigerian National Petroleum Corporation
NPI	Net Profit Interest
PLC	A publicly held company
San Leon or the Company	San Leon Energy PLC
SEDA	Standby Equity Distribution Agreement
Sp. z o.o.	Polish limited liability company
Sp. z o.o. sp.k	Polish LLP
SPV	Special purpose vehicle
Yorkville	Yorkville Advisors Global LP

CONVERSION

The following table sets forth certain standard conversions from Standard Imperial Units to the International System of Units (or metric units).

To convert from	To	Multiply by
mcf	Cubic metres	28.174
Cubic metres	Cubic feet	35.494
bbls	Cubic metres	0.159
Cubic metres	bbls	6.290
Feet	Metres	0.305
Metres	Feet	3.281
Miles	Kilometres	1.609
Kilometres	Miles	0.621
Acres	Hectares	0.405
Hectares	Acres	2.471

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Credits

Concept / Design: Lamtar
Philippe Boutié, Milos Zaric

Main Photography / Nigeria: Musa Tukurah
mtukurah.com

Additional Photography
Philippe Boutié, DR

Produced by:
Instinctif Partners
www.creative.instinctif.com

San Leon Energy plc

Head Office
3300 Lake Drive
Citywest Business Campus
Dublin 24, Ireland

Registered address
First Floor
Wilton Park House
Dublin 2, Ireland

sanleonenergy.com