Independent Oil and Gas plc

(formerly Silbury 395 Limited)

Report and Audited Financial Statements

Year ended

31 December 2012

Company Number 07434350

Independent Oil and Gas plc

Report and audited financial statements
for the year ended 31 December 2012

Contents

Page:

Country of incorporation of parent company

United Kingdom

Legal form

Public limited company with share capital

Directors

Mehdi Varzi
Marie-Louise Clayton
Peter Young
Mark Routh
Michael Jordan

Secretary and registered office

Ben Harber
One America Square
Crosswall
London
EC3N 2SG

Company number

07434350

Auditors

BDO LLP, 55 Baker Street, London, W1U 7EU

Independent Oil and Gas plc

Report of the directors
for the year ended 31 December 2012

The directors present their report and audited financial statements of Independent Oil and Gas plc ("the Company") and its subsidiaries ("the Group") for the year to 31 December 2012. All amounts are shown in Pounds Sterling, unless otherwise stated.

Review of activities and business review

The Company was incorporated as Silbury 395 Limited on 9 November 2010 and subsequently changed its name to Independent Oil and Gas Limited on 25 March 2011. On 18 September 2013, the Company re-registered as a public limited company and changed its name to Independent Oil and Gas plc.

The principal activity of the Group during the year was the acquisition and development of oil and gas production assets.

Risks and uncertainties

The Group operates in the oil and gas industry, an environment subject to a range of inherent risks and uncertainties. Being at an early stage the prime risks to which the Group is subject are the access to sufficient funding to continue its operations, the status and financing of its partners, changes in cost and reserves estimates for its assets, changes in forward commodity prices and the successful development of its oil and gas reserves.

Key performance indicators

The Group's main business is the acquisition and exploitation of oil and gas acreage. Non-financial performance is tracked through the accumulation of licence interests, and the successful discovery and exploitation of oil and gas reserves.

Future developments

Once sufficient new finance has been obtained the Group plans to appraise and develop its existing discoveries in conjunction with its partners, explore its new licence interests and seek new investment opportunities.

Results and dividend

The Group made a loss on ordinary activities of £446,419 for the year (2011: £172,633). The directors do not recommend the payment of a dividend (2011: £Nil).

Going concern

The Company's access to further funding over the past year has been complicated by the financial position of the Company's operating partner for its oil and gas assets, ATP Oil & Gas (UK) Ltd, whose US parent filed for protection from its creditors under Chapter 11 of the US Bankruptcy Code on 17 August 2012. Bids have been requested for ATP's assets and the directors understand that negotiations with preferred bidders have commenced with expected completion in the near future.

The directors have been considering a number of options in order to raise additional finance to fund the Group's ongoing oil and gas appraisal and development activities. In this context the Company announced on 16 September 2013 its intention to seek admission to the Alternative Investment Market ("AIM") of the London Stock exchange with associated new funding.

As a result, the directors consider that the Group has adequate working capital for at least the next twelve months. Accordingly, the directors continue to adopt the going concern basis in preparing the annual report and accounts.

Directors

The directors who held office during the year were:

Mark Routh
Marie-Louise Clayton
Peter Young
Thomas Hardy (resigned 22 March 2013)
Michael Jordan (appointed 17 August 2012)
Mehdi Varzi (appointed 17 August 2012)

Related Parties

Information on related parties can be found in note 20 to the financial statements.

Subsequent Events

Information on subsequent events can be found in note 21.

Financial Instruments

Information on financial instruments can be found in note 17.

Directors' responsibilities

The directors are responsible for preparing the Report of the Directors and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that legislation the directors have elected to prepare the Group and Company financial statements in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Company and of the profit or loss of the Group and Company for that period.

In preparing these financial statements, the Directors are required to:

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

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the requirements of the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Directors' confirmation

Each person who is director at the time when this report is approved has confirmed that:

a. So far as each director is aware, there is no relevant audit information of which the Company's auditors are unaware; and

b. Each director has taken all the steps that ought to have been taken as a director, including making appropriate enquiries of fellow directors and the Company's auditors for that purpose, in order to be aware of any information needed by the Company's auditors in connection with preparing their report and to establish that the Company's auditors are aware of that information.

Auditors

BDO LLP have expressed their willingness to continue in office and a resolution to re-appoint them will be proposed at the annual general meeting.

On behalf of the Board

Peter Young

Director

20 September 2013

Independent auditor's report
to the members of Independent Oil and Gas plc

TO THE MEMBERS OF INDEPENDENT OIL AND GAS PLC

We have audited the financial statements of Independent Oil and Gas plc for the year to 31 December 2012 which comprise the Consolidated Statement of Comprehensive Income, Consolidated and Company Statements of Changes in Equity, Consolidated and Company Statements of Financial Position, Consolidated and Company Statements of Cash Flows and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the Parent Company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As explained more fully in the Statement of Directors' Responsibilities, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and the Parent Company's affairs as at 31 December 2012 and of the Group's loss for the year then ended;

- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;

- the Parent Company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and

- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion the information given in the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

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

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

[Signature]
Scott Knight (senior statutory auditor)
For and on behalf of BDO LLP, statutory auditor
London
United Kingdom

20 September 2013

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

Independent Oil and Gas plc

Consolidated statement of comprehensive income
for the year ended 31 December 2012

	Note	2012 £	2011 £
Other administrative expenses		391,587	140,029
Exchange (gain)/loss		(45,026)	32,604
Operating loss	3	**346,561**	**172,633**
Finance expense	5	99,858	-
Loss before tax		**446,419**	**172,633**
Taxation	6	-	-
Loss from continuing operations		**446,419**	**172,633**
Total comprehensive loss		**446,419**	**172,633**

All amounts relate to continuing activities.
All recognised gains and losses in the current and prior year are included in the income statement.

The notes on pages 12 to 30 form part of these financial statements.

Independent Oil and Gas plc

Consolidated statement of changes in equity
for the year ended 31 December 2012

	Share capital	Share premium	Convertible debt option reserve	Retained Profit/(deficit)	Total equity
Group	**£**	**£**	**£**	**£**	**£**
At 9 November 2010	-	-	-	-	-
Share capital issued	471,768	12,992,373	-	-	13,464,141
Loss for the period	-	-	-	(172,633)	(172,633)
At 31 December 2011	**471,768**	**12,992,373**	**-**	**(172,633)**	**13,291,508**
Share capital issued	1,389	86,107	-	-	87,496
Issue of convertible loan notes	-	-	122,412	-	122,412
Loss for the year	-	-	-	(446,419)	(446,419)
At 31 December 2012	**473,157**	**13,078,480**	**122,412**	**(619,052)**	**13,054,997**

	Share capital	Share premium	Convertible debt option reserve	Retained Profit/(deficit)	Total equity
Company					
At 9 November 2010	-	-	-	-	-
Share capital issued	471,768	12,992,373	-	-	13,464,141
Profit for the period	-	-	-	834	834
At 31 December 2011	**471,768**	**12,992,373**	**-**	**834**	**13,464,975**
Share capital issued	1,389	86,107	-	-	87,496
Issue of convertible loan notes	-	-	122,412	-	122,412
Profit for the year	-	-		6,014	6,014
At 31 December 2012	**473,157**	**13,078,480**	**122,412**	**6,848**	**13,680,897**

Share capital
Amounts subscribed for share capital at nominal value.

Share premium account
Amounts received by the Company on the issue of its shares in excess of the nominal value of the shares.

Convertible debt option reserve
Amount of proceeds on issue of convertible debt relating to the equity component (i.e. option to convert the debt into share capital).

Retained profit/(deficit)
Cumulative net gains and losses recognised in the Statement of Comprehensive Income net of amounts recognised directly in equity.

The notes on pages 12 to 30 form part of these financial statements.

Independent Oil and Gas plc

Consolidated statement of financial position
at 31 December 2012

Company Number: 07434350	**Note**	**2012**	**2011**
		£	**£**
Non-current assets			
Oil and gas costs pending determination	7	**15,171,428**	**14,556,759**
Current assets			
Other receivables	10	30,206	28,115
Cash and cash equivalents	15	22,703	118,047
		52,909	**146,162**
Total assets		**15,224,337**	**14,702,921**
Current liabilities			
Loan notes	11	(396,353)	-
Trade and other payables	11	(311,733)	(160,559)
	11	**(708,086)**	**(160,559)**
Non-current liabilities			
Trade and other payables	12	**(1,461,254)**	**(1,250,854)**
Total liabilities		**(2,169,340)**	**(1,411,413)**
Net assets		**13,054,997**	**13,291,508**
Capital and reserves			
Called up equity share capital	13	473,157	471,768
Share premium account	13	13,078,480	12,992,373
Convertible debt option reserve	11	122,412	-
Retained deficit		(619,052)	(172,633)
		13,054,997	**13,291,508**

The financial statements were approved and authorised for issue by the Board of Directors on 20 September 2013 and were signed on its behalf by:

Peter Young
Director

The notes on pages 12 to 30 form part of these financial statements.

Independent Oil and Gas plc

Company statement of financial position
at 31 December 2012

Company Number: 07434350	**Note**	**2012** **£**	**2011** **£**
Non-current assets			
Investments	8	**12,591,943**	**12,591,943**
Current assets			
Trade and other receivables	10	30,206	28,115
Amounts due from subsidiaries	8	1,723,761	882,807
Cash and cash equivalents	15	22,703	118,047
		1,776,670	**1,028,969**
Total assets		**14,368,613**	**13,620,912**
Current liabilities			
Loan Notes	11	(396,353)	-
Trade and other payables	11	(267,722)	(132,296)
	11	**(664,075)**	**(132,296)**
Trade and other payables	12	**(23,641)**	**(23,641)**
Total liabilities		**(687,716)**	**(155,937)**
Net assets		**13,680,897**	**13,464,975**
Capital and reserves			
Called up equity share capital	13	473,157	471,768
Share premium account	13	13,078,480	12,992,373
Convertible debt option reserve	11	122,412	-
Retained profit		6,848	834
		13,680,897	**13,464,975**

The financial statements were approved and authorised for issue by the Board of Directors on 20 September 2013 and were signed on its behalf by:

Peter Young
Director

The notes on pages 12 to 30 form part of these financial statements.

Independent Oil and Gas plc

Consolidated cash flow statement
for the year ended 31 December 2012

	Note	2012	2011
Cash flows from operating activities			
Cash used in operations	14	(198,935)	(147,819)
Net cash used in operating activities		**(198,935)**	**(147,819)**
Cash flows from investing activities			
Purchase of intangible non-current assets		(428,648)	(690,849)
Net cash received with acquisitions		-	315,306
Net cash used in investing activities		**(428,648)**	**(375,543)**
Cash flows from financing activities			
Proceeds from issue of ordinary shares		87,496	641,409
Proceeds from issue of loan notes		444,743	-
Net cash generated from financing activities		**532,239**	**641,409**
(Decrease)/increase in cash and cash equivalents in the period		(95,344)	118,047
Cash and cash equivalents at start of period		118,047	-
Cash and cash equivalents at end of period	15	**22,703**	**118,047**

The notes on pages 12 to 30 form part of these financial statements.

Independent Oil and Gas plc

Company cash flow statement
for the year ended 31 December 2012

	Note	2012 £	2011 £
Cash flows from operating activities			
Cash used in operations	14	(156,094)	(160,210)
Net cash used in operating activities		**(156,094)**	**(160,210)**
Cash flows from investing activities			
Amounts invested in subsidiaries		(471,489)	(678,458)
Net cash received with acquisitions		-	315,306
Net cash used in investing activities		**(471,489)**	**(363,152)**
Cash flows from financing activities			
Proceeds from issue of ordinary shares		87,496	641,409
Proceeds from issue of loan notes		444,743	-
Net cash generated from financing activities		**532,239**	**641,409**
(Decrease)/increase in cash and cash equivalents in the period		(95,344)	118,047
Cash and cash equivalents at start of period		118,047	-
Cash and cash equivalents at end of period	15	**22,703**	**118,047**

The notes on pages 12 to 30 form part of these financial statements.

1 Accounting policies

Statement of significant accounting policies

IAS 8 requires management to use its judgement in developing and applying accounting policies that result in information which is relevant to the economic decision-making needs of users; that are reliable, free from bias, prudent, complete and represent faithfully the financial position, financial performance and cash flows of the entity.

Basis of preparation

The principal accounting policies adopted in the preparation of the financial statements are set out below. The policies have been consistently applied to all the years presented, unless otherwise stated.

These financial statements have been prepared on the basis of a going concern and in line with International Financial Reporting Standards ("IFRSs") and IFRIC interpretations issued by the International Accounting Standards Board ("IASB") adopted by the European Union and in accordance with applicable United Kingdom Law.

The adoption of all of the new and revised Standards and Interpretations issued by the IASB and the International Financial Reporting Interpretations Committee (IFRIC) of the IASB that are relevant to the operations and effective for annual reporting periods beginning on or after 1 January 2010 are reflected in these financial statements.

The preparation of financial statements in conformity with 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. The estimates and associated assumptions are based on historical experience and factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision only affects that period or in the period of revision and future periods if the revision affects both current and future periods.

Adoption of new and revised International Financial Accounting Standards

New and amended standards adopted by the Group:
The accounting policies adopted are consistent with those of the previous financial period, except for the following new and amended IFRS and IFRIC interpretations applied as of 1 January 2012.

Standard	**Effective date**	**Impact on initial application**
Amendments to IFRS 7 Disclosures – Transfer of Financial Assets	1 Jul 2011	Applies for periods beginning on or after the effective date. No impact upon the Group or Company.
Amendments to IAS 12 Deferred tax – recovery of underlying assets	1 Jan 2012	Applies for periods beginning on or after 1 Jan 2012. No impact upon the Group or Company.

No other IFRS issued and adopted but not yet effective are expected to have a material impact on the Group's financial statements.

1 Accounting policies *(continued)*

Adoption of new and revised International Financial Accounting Standards (continued)

Standards, amendments and interpretations, which are effective for reporting periods beginning after the date of these financial statements which have not been adopted early:

Standard	Description	Effective date
IAS 1	Financial statements presentation – Other comprehensive income	1 July 2012
IFRS 9*	Financial Instruments	1 Jan 2015
IFRS 10	Consolidated Financial Statements	1 Jan 2014
IFRS 11	Joint Arrangements	1 Jan 2014
IFRS 12	Disclosure of Interests in Other Entities	1 Jan 2014
IFRS 13	Fair Value Measurement	1 Jan 2013
IAS 27	Separate Financial Statements	1 Jan 2014
IAS 28	Investments in Associates and Joint Ventures	1 Jan 2014
IAS 19	Employee Benefits	1 Jan 2013
IFRS 7	Financial Instrument Disclosures	1 Jan 2013
IAS 32	Financial Instrument Presentation	1 Jan 2014

Items marked * had not yet been endorsed by the European Union at the date these financial statements were approved and authorised for issued by the Board.

These new and revised standards and interpretations are not expected to materially affect the Group's reporting or reported numbers.

Going concern

The directors have been considering a number of options in order to raise additional finance to fund the Group’s ongoing oil and gas appraisal and development activities. In this context the Company announced on 16 September 2013 its intention to seek admission to the Alternative Investment Market (“AIM”) of the London Stock exchange with associated new funding.

As a result, the directors consider that the Group has adequate working capital for at least the next twelve months. Accordingly, the directors continue to adopt the going concern basis in preparing the annual report and accounts.

1 Accounting policies *(continued)*

Basis of consolidation

Where the Company has the power, either directly or indirectly, to govern the financial and operating policies of another entity or business so as to obtain benefits from its activities, it is classified as a subsidiary. The consolidated financial statements present the results of the Company and its subsidiaries as if they formed a single entity. Inter-company transactions and balances between Group companies are therefore eliminated in full. The financial statements of subsidiaries are included in the Group's financial statements from the date that control commences until the date that control ceases.

Subsidiaries
A subsidiary is an entity over which the Company is able to exercise control. Control is achieved where the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account.

Jointly controlled assets
Jointly controlled assets are arrangements in which the Group holds an interest on a long term basis which are jointly controlled by the Group and one or more venturers under a contractual arrangement. The Group's exploration, development and production activities are generally conducted jointly with other companies in this way. When these arrangements do not constitute entities in their own right, the consolidated financial statements reflect the relevant proportion of costs, revenues, assets and liabilities applicable to the Group's interests in accordance with IAS 31.

Oil and gas exploration assets and development/producing assets

The Group follows a successful efforts based accounting policy for oil and gas assets. Under successful efforts expenditure incurred on the acquisition of a licence interest is initially capitalised on a licence by licence basis. Costs are held undepleted within exploration assets until such time as the exploration phase on the licence area is complete or commercial reserves have been discovered.

Exploration expenditure incurred in the process of determining exploration targets is capitalised initially within intangible assets and subsequently allocated to drilling activities. Exploration drilling costs are initially capitalised on a well by well basis until the success or otherwise of the well has been established. The success or failure of each exploration effort is judged on a well by well basis. Drilling costs are written off on completion of a well unless the results indicate that hydrocarbon reserves exist and there is a reasonable prospect that these reserves are commercial.

Costs incurred prior to obtaining the legal rights to explore an area are expensed immediately to the Statement of Comprehensive Income as exploration costs written off.

All lease and licence acquisition costs, geological and geophysical costs and other direct costs of exploration, evaluation and development are capitalised as intangible assets or oil and gas development costs according to their nature. Intangible assets comprise costs relating to the exploration and evaluation of licences which the Directors consider to be unevaluated until reserves are appraised as commercial, at which time they are transferred to oil and gas development costs following an impairment review and depreciated accordingly.

Where results of exploration drilling indicate the presence of hydrocarbons which are ultimately considered not commercially viable, all related costs are written off to the Statement of Comprehensive Income as exploration costs written off.

All costs incurred after the technical feasibility and commercial viability of producing hydrocarbons have been demonstrated are capitalised as oil and gas development costs on a field by field basis. Subsequent expenditure is capitalised only where it either enhances the economic benefits of the development/producing asset or replaces part of the existing development/producing asset. Any costs remaining associated with the replaced asset part are expensed.

1 Accounting policies *(continued)*

Oil and gas exploration assets and development/producing assets (continued)

Net proceeds from any disposal of an exploration asset are initially credited against the previously capitalised costs. Any surplus proceeds are credited to the Statement of Comprehensive Income. Net proceeds from any disposal of development/producing assets are credited against the previously capitalised cost. A gain or loss on disposal of a development/producing asset is recognised in the Statement of Comprehensive Income to the extent that the net proceeds exceed or are less than the appropriate portion of the net capitalised costs of the asset.

Depletion and amortisation

The Group depletes separately, where applicable, any identifiable part of development/producing assets, such as fields, processing facilities and pipelines which is significant in relation to the total cost of a development/producing asset.

The Group depletes expenditure on oil and gas production and development on a unit of production basis, based on proved and probable reserves on a field by field basis. In certain circumstances, fields within a single development area may be combined for depletion purposes.

Impairment

Exploration assets are reviewed regularly for indications of impairment and costs are written off where circumstances indicate that the carrying value might not be recoverable. In such circumstances the exploration asset is allocated to development/producing assets within the same geographic segment and tested for impairment. Any such impairment arising is recognised in the Statement of Comprehensive Income as exploration costs written off for the period. Where there are no development or producing assets within a geographic segment, the exploration costs are charged immediately to the Statement of Comprehensive Income.

Impairment reviews on development/producing oil and gas assets are carried out on each cash generating unit identified in accordance with IAS 36. The Group's cash generating units are those assets which generate largely independent cash flows and are normally, but not always, single development areas.

At each reporting date, where there are indications of impairment, the net book value of the cash generating unit is compared with the associated expected discounted future cash flows. If the net book value is higher, then the difference is written off to the Statement of Comprehensive Income as cost of sales.

Where there has been a charge for impairment in an earlier year that charge will be reversed in a later period where there has been a change in circumstances to the extent that the discounted cash flows are higher than the net book value at the time. In reversing impairment losses, the carrying amount of the asset will be increased to the lower of its original carrying value or the carrying value that would have been determined (net of depletion) had no impairment loss been recognised in prior periods.

Investments and loans

Shares in subsidiary undertakings are shown at cost. Loans to subsidiary undertakings are stated at amortised cost.

Provisions are made for any impairment in value.

1 Accounting policies *(continued)*

Financial instruments

(i) Financial assets

Loans and receivables
The Group's loans and receivables comprise trade receivables, other financial assets, and cash and cash equivalents.

These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise principally through prepayments and recoverable VAT but may also incorporate other types of contractual monetary asset. Loans and receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

A provision for impairment is established when there is objective evidence that the asset will not be collectible in full according to the original terms of the instruments. The amount of the provision is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in profit or loss. When loans and receivables are uncollectible, they are written off against the allowance account for loans and receivables. Subsequent recoveries of amounts previously written off are credited to profit or loss, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Cash and cash equivalents
Cash includes cash on hand and demand deposits with any bank or other financial institution. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash which are subject to an insignificant risk of changes in value.

(ii) Financial liabilities held at cost

Trade payables and other short-term monetary liabilities are recognised at fair value and in view of the short payment periods are not amortised.

Equity

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs, allocated between share capital and share premium.

Share issue expenses and Share premium account

The costs of issuing new share capital are written-off against the Share premium account arising out of the proceeds of the new issue.

1 Accounting policies *(continued)*

Taxation

Tax on the profit or loss for the period comprises current and deferred tax. Tax is recognised in the Statement of Comprehensive Income except to the extent that it relates to items recognised in other comprehensive income, in which case it is recognised in other comprehensive income.

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

Deferred tax assets and liabilities are recognised where the carrying amount of an asset or liability in the statement of financial position differs to its tax base, except for differences arising on the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction affects neither accounting or taxable profit; and investments in subsidiaries and jointly controlled entities where the Group is able to control the timing of the reversal of the difference and it is probable that the difference will not reverse in the foreseeable future.

Recognition of deferred tax assets is restricted to those instances where it is probable that taxable profit will be available against which the difference can be utilised.

The amount of the asset or liability is determined using tax rates that have been enacted or substantively enacted by the reporting date and are expected to apply when the deferred tax liabilities/(assets) are settled/(recovered). Deferred tax balances are not discounted.

Deferred tax assets and liabilities are offset when the Group has a legally enforceable right to offset current tax assets and liabilities and the deferred tax assets and liabilities relate to taxes levied by the same tax authority on either:

- the same taxable Group company; or
- different Group entities which intend either to settle current tax assets and liabilities on a net basis, or
- to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax assets or liabilities are expected to be settled or recovered.

Decommissioning

At the end of the producing life of a field, costs are incurred in removing and decommissioning production facilities. The Group recognises the full discounted cost of decommissioning as an asset and liability when the obligation to rectify environmental damage arises. Where material, the decommissioning asset is included within fixed assets with the cost of the related installation. The corresponding liability is included within provisions. Revisions to the estimated costs of decommissioning which alter the level of the provisions required are also reflected in adjustments to the decommissioning asset. The amortisation of the asset, calculated on a unit of production basis based on proved and probable reserves, is shown as the "decommissioning charge" in the Statement of Comprehensive Income and the unwinding of the discount on the provision is included within "finance costs".

1 Accounting policies *(continued)*

Foreign currencies

The functional and presentation currency of the Group and the Company is Pounds Sterling.

The Group translates foreign currency transactions into the functional currency at the rate of exchange prevailing at the transaction date. Monetary assets and liabilities denominated in foreign currency are translated into the functional currency at the rate of exchange prevailing at the reporting date. Exchange differences arising are taken to the Statement of Comprehensive Income except for those incurred on borrowings specifically allocable to development projects, which are capitalised as part of the cost of the asset.

Segmental reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision makers have been identified as the Chief Executive Officer, Chief Financial Officer and the other executive and non-executive Board members.

Key sources of estimation uncertainty

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

Gas and liquids reserves
The volume of proven and probable gas and liquids reserves is an estimate that affects the unit of production depreciation of producing gas and oil property, plant and equipment as well as being a significant estimate affecting decommissioning estimates and impairment calculations.

The impact of a change in estimated proven and probable reserves is dealt with prospectively by depreciating the remaining book value of producing assets over the expected future production. If proven and probable reserves estimates are revised downwards, earnings could be affected by higher depreciation expense or an immediate write-down (impairment) of the asset's book value.

The Group currently holds no proven and probable gas and liquids reserves.

Decommissioning costs
The estimated cost of decommissioning at the end of the producing lives of fields is reviewed periodically and is based on proven and probable reserves, price levels and technology at the reporting date. Provision is made for the estimated cost of decommissioning at the reporting date. The payment dates of total expected future decommissioning costs are uncertain and dependent on the lives of the facilities. The abandonment of the fields is expected to happen in one to thirty five years. As no field developments have commenced to-date no provision for decommissioning costs had been made at the balance sheet date.

2 Segmental information

The Group complies with IFRS 8, Operating Segments, which requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the directors to allocate resources to the segments and to assess their performance. In the opinion of the directors, the operations of the Group comprise one class of business, being the exploration and development of oil and gas opportunities in the North Sea.

3 Operating loss

The Group operating loss is stated after charging/(crediting) the following:

	2012 £	2011 £
Fees payable to the Company's auditor for the audit of the Company's and Group's annual financial statements	24,000	35,000
Exploration expense	97,300	-
Staff costs	23,027	123,316
Staff costs capitalised as oil and gas non-current assets	(12,432)	(51,509)
Foreign exchange (gain)/loss	(45,026)	32,604

4 Staff costs and directors' remuneration

The Group did not have any employees during this period.

All personnel were engaged under consultancy contracts.

Group	**2012 £**	**2011 £**
Directors' costs	20,910	76,348
Management costs	2,117	46,968
	23,027	**123,316**
During the period, the average number of employees was:	**Number**	**Number**
Management/operational	2	2
Directors	5	5

Company	**£**	**£**
Directors' costs	20,910	76,348
Management costs	2,117	46,968
	23,027	**123,316**

4 Staff costs and directors' remuneration *(continued)*

During the period, the average number of employees was:

	Number	Number
Management/operational	2	2
Directors	5	5

Key management and personnel are considered to be the Executive and Non-executive Directors. Directors held no options during 2012 (2011: Nil).

The Company paid premiums of £12,282 for Directors and Officers Liability insurance during the year (2011: £Nil).

5 Finance expense

	2012 £	2011 £
Loan interest	74,022	-
Other Interest	25,836	-
	99,858	-

6 Taxation

a) Current taxation

There was no tax charge during the year since the Group had no income. Expenditures to date will be accumulated for offset against future tax charges

6 Taxation *(continued)*

The reasons for the difference between the actual tax charge for the year and the standard rate of corporation tax in the United Kingdom applied to profits for the year are as follows:

	2012 £	2011 £
Loss for the year	446,419	172,633
Income tax expense (including income tax on associate and discontinued operation)	-	-
Loss before income taxes	446,419	172,633
Expected tax credit based on the standard rate of United Kingdom corporation tax at the domestic rate of 24.5% (2011: 26.5%)	109,373	45,748
Expenses not deductible for tax purposes	(32,971)	(54)
Unrecognised taxable losses carried forward	(76,402)	(45,694)
Total tax expense	-	-

Changes in tax rates and factors affecting the future tax charge

Finance Act 2012 includes provision for the main rate of corporation tax to reduce from 26% to 24% on 1 April 2012, and to 23% on 1 April 2013. It has also been announced that there will be a further 1% reduction to bring the main rate to 22% from 1 April 2014. This will reduce the Company's future tax charge accordingly. The rate of 24% was substantially enacted on the 26 March 2012 and the rate of 23% substantially enacted on 6 July 2012. Future net production revenues with be subject to ring fence corporation tax including a supplementary charge. Currently applicable rates total 62% combined.

b) Deferred taxation

Due to the nature of the Group's exploration activities there is a long lead time in either developing or otherwise realising exploration assets. A deferred tax asset will only be created if there is reasonable certainty that profits will be earned in the foreseeable future.

7 Non-current assets

Oil and gas costs pending determination - Group

	2012 £	2011 £
At cost		
At beginning of the year	14,556,759	-
Acquisitions	229,588	13,783,465
Additions	385,081	773,294
At end of the year	15,171,428	14,556,759
Write-downs at the beginning and end of the year	-	-
Net book value		
At 31 December	**15,171,428**	**14,556,759**
At 1 January	**14,556,759**	**-**

On 27 October 2011 the Group exercised its options to acquire 50% interests in UKCS licences P1736 (Blocks 48/22b and 48/23a) from Ebor Energy UK Limited and P1609 (Block 9/21a) from MOST including equivalent interests in the Blythe and Skipper fields respectively. Consideration consisted of the issue of shares in Independent Oil and Gas plc plus the acceptance of creditors and the transfer of cash balances as set out below.

	Licence P1736 (Blythe)	Licence P1609 (Skipper)	Total
	£	£	£
Shares issued	4,109,283	8,654,448	12,763,731
Creditors assumed	-	1,218,250	1,218,250
Associated costs	60,427	56,363	116,790
Cash received	(210,959)	(104,347)	(315,306)
Net consideration	**3,958,751**	**9,824,714**	**13,783,465**

On 1 April 2012 long term creditors assumed under the terms of the acquisition increased by £229,588 (US$370,861) in accordance with the relevant agreement as that creditor had not been repaid by 31 March 2012.

In August 2012 ATP Oil & Gas Corporation, the US parent of the Company's operating partner for its oil & gas assets, ATP Oil & Gas (UK) Ltd, filed for protection from its creditors under Chapter 11 of the US Bankruptcy Code. Bids have been requested for ATP's assets and the directors understand that negotiations with preferred bidders have commenced with expected completion in the near future. Once a sale has been completed and a new operator appointed, the management expect the operator to propose appraisal and development plans for the fields. Pending completion of this process the Blythe and Skipper licences have been extended to 31 December 2013. Management expects the licences to be further extended by the Department of Energy and Climate Change once a new operator has been installed.

8 Investments

Company	Shares in Group companies £	Loans to Group companies £	Total £
At cost			
At beginning of period	-	-	-
Additions	12,591,943	882,807	13,474,750
Written off	-	-	-
At 31 December 2011	12,591,943	882,807	13,474,750
Additions	-	840,954	840,954
At 31 December 2012	**12,591,943**	**1,723,761**	**14,315,704**

The Company's principal subsidiaries are as follows:

Directly held	Country of incorporation	Area of operation	%
IOG Skipper Limited	United Kingdom	United Kingdom	100
IOG North Sea Limited (formerly IOG Blythe Limited)	United Kingdom	United Kingdom	100

Both subsidiaries were incorporated in the United Kingdom on 13 May 2011 and are engaged in the business of oil and gas exploration in the North Sea.

9 Interests in jointly controlled assets

Licence	Beneficial interest %	Operator
United Kingdom		
Skipper oil field	50.00%	ATP
Blythe gas field	50.00%	ATP
Skipper West exploration licence	100.00%	IOG

10 Other receivables

	2012 £	2011 £
Group and Company		
Value added tax recoverable	**30,206**	**28,115**

11 Current liabilities

	2012 £	2011 £
Group		
Loan notes	396,353	-
Trade payables	186,889	96,050
Amounts due to joint venture partners	22,171	29,509
Accruals	102,673	35,000
	708,086	**160,559**
Company		
Loan notes	396,353	-
Trade payables	162,876	96,037
Amounts due to joint venture partners	22,171	29,509
Accruals	82,675	6,750
	664,075	**132,296**

During 2012 the Company raised additional finance totalling £444,743 through the issue of loan notes. Interest accrues on the loan notes at a rate of 7.5% per annum and totalled £19,958 at 31 December 2012. In the event of an AIM admission or Initial Public Offering of the Company, the loan notes plus accrued interest will convert into ordinary shares of the Company at a price equivalent to 80% of the offering price. Otherwise the loan notes will be redeemed on 30 September 2013 In view of the right to conversion into equity of the loan notes, a fair value of £122,412 has been ascribed to the equity component and is reflected in the convertible debt option reserve within capital and reserves. There has been an additional interest charge of £54,064 to reflect the effective interest rate of the loan notes.

12 Non-current liabilities

	2012 £	2011 £
Group		
Trade creditors	**1,461,254**	**1,250,854**
Company		
Trade creditors	**23,641**	**23,641**

These trade creditors were assumed by the Group in conjunction with acquisition of licence interests in 2011. Of the Group total, £1,174,123 is due no later than 31 March 2015 whilst the balance is not due until after sustained production is achieved from the Skipper field. The Company's trade creditors are not due until after sustained production is achieved from the Skipper field.

13 Equity share capital

	Number	Share capital £	Share premium £	Total £
Allotted, issued and fully paid				
At beginning of period				
- Ordinary shares of 1 pence each	-	-	-	-
Asset acquisitions	44,730,089	447,223	12,316,508	12,763,731
Equity issued	2,454,616	24,545	675,865	700,410
At 31 December 2011				
- Ordinary shares of 1 pence each	**47,184,705**	**471,768**	**12,992,373**	**13,464,141**
Equity issued	138,712	1,389	86,107	87,496
At 31 December 2012				
- Ordinary shares of 1 pence each	**47,323,417**	**473,157**	**13,078,480**	**13,551,637**

14 Cash flow statement

	Company £	Group £
2012		
(Profit)/loss after tax	(6,014)	446,419
Adjustments for:		
Capitalisation	-	12,432
Recharges	369,466	-
Interest on loan notes	(74,022)	(74,022)
Interest on long-term payable	-	(25,836)
Foreign exchange	-	45,024
Decrease in trade and other receivables	2,091	2,091
Increase in trade and other payables	(135,427)	(207,173)
Cash used in operations	**156,094**	**198,935**
2011		
(Profit)/loss after tax	(834)	172,633
Adjustments for:		
Capitalisation	-	51,509
Recharges	176,498	-
Foreign exchange	-	(32,604)
Increase in trade and other receivables	28,115	28,115
Increase in trade and other payables	(43,569)	(71,834)
Cash used in operations	**160,210**	**147,819**

15 Cash and cash equivalents

Group and Company	2012 £	2011 £
Cash at bank	**22,703**	**118,047**

16 Company profit for the year

The Company has taken advantage of the exemption allowed under Section 408 of the Companies Act 2006 and has not presented its own Statement of Comprehensive Income in these financial statements.

The Company profit for the year was £6,014 (2011: £834).

17 Financial instruments

Significant accounting policies
Details of the significant accounting policies in respect of financial instruments are disclosed in Note 1 of the financial statements.

Financial risk management
The Board seeks to minimise its exposure to financial risk by reviewing and agreeing policies for managing each financial risk and monitoring them on a regular basis. No formal policies have been put in place in order to hedge the Group and Company's activities to the exposure to currency risk or interest risk, however as the Group enters greater commercial production this may be considered. No derivatives or hedges were entered into during the period.

General objectives, policies and processes
The Board has overall responsibility for the determination of the Group and Company's risk management objectives and policies and, whilst retaining ultimate responsibility for them, it has delegated the authority for designing and operating processes that ensure the effective implementation of the objectives and policies to the Group's finance function. The Board receives regular reports from the Finance Director through which it reviews the effectiveness of the processes put in place and the appropriateness of the objectives and policies it sets.

The Group is exposed through its operations to the following financial risks:

- Liquidity risk;
- Credit risk;
- Cash flow interest rate risk; and
- Foreign exchange risk

The overall objective of the Board is to set policies that seek to reduce risk as far as possible without unduly affecting the Group and Company's competitiveness and flexibility. Further details regarding these policies are set out below:

Principal financial instruments
The principal financial instruments used by the Group and Company, from which financial instrument risk arises are as follows:

- Other receivables
- Cash and cash equivalents
- Trade and other payables

17 Financial instruments *(continued)*

Liquidity risk

The Group's and Company's policy is to ensure that it will always have sufficient cash to allow it to meet its liabilities when they become due. To achieve this aim, it seeks to maintain readily available cash balances to meet expected requirements for a period of at least 60 days.

Rolling cash forecasts identifying the liquidity requirements of the Group and Company are produced frequently. These are reviewed regularly by management and the Board to ensure that sufficient financial resources are made available. All Group activities are funded through the Company.

At 31 December 2012 the Group and Company had loan notes totalling £444,743 plus interest accrued of £19,958 outstanding (2011: £Nil). Due to the expected conversion, a fair value of £122,412 has been ascribed to the equity component and is reflected in the convertible debt option reserve within capital and reserves. There has been an additional interest charge of £54,064 to reflect the effective interest rate of the loan notes.

2012 Group	Contractual cash flows £	6 months or less £	Greater than 6 months, less than 12 months £	Greater than 12 months £	Total undiscounted £	Carrying amount £
Current assets						
Trade and other receivables	-	30,206	-	-	30,206	30,206
Cash and cash equivalents	-	22,703	-	-	22,703	22,703
	-	**52,909**	**-**	-	**52,909**	**52,909**
Current financial liabilities						
Loan notes	-	396,353			396,353	396,353
Trade and other payables	-	311,733	-	-	311,733	311,733
Non-current financial liabilities						
Trade and other payables	-	-	-	1,461,254	1,461,254	1,461,254
	-	**708,086**	**-**	**1,461,254**	**2,169,340**	**2,169,340**
2011 Group	**£**	**£**	**£**	**£**	**£**	**£**
Current assets						
Trade and other receivables	-	28,115	-	-	28,115	28,115
Cash and cash equivalents	-	118,047	-	-	118,047	118,047
	-	**146,162**	**-**	-	**146,162**	**146,162**
Current financial liabilities						
Trade and other payables	-	160,559	-	-	160,559	160,559
Non-current financial liabilities						
Trade and other payables	-	-	-	1,250,854	1,250,854	1,250,854
	-	**160,559**	**-**	**1,250,854**	**1,411,413**	**1,411,413**

17 Financial instruments *(continued)*

Credit risk

The credit risk on liquid funds is limited because the counterparties are banks with credit ratings assigned by international credit rating agencies. The Group places funds only with selected organisations with ratings of 'A' or above as ranked by Standard & Poor's for both long and short term debt.

The Group made investments and advances into subsidiary companies during the year, recovery of which is dependent on future income generation of those subsidiaries. The Group and Company's maximum exposure to credit risk by class of individual financial instrument and the contractual maturities of financial assets, including estimated interest payments and excluding the impact of netting agreements are shown below.

None of the Group's external trade and other receivables have been impaired. Group trade and other receivables are predominantly non-interest bearing. The Group does not hold any collateral as security and the Group does not hold any significant provision in the impairment account for trade and other receivables as they mainly relate to third parties with no default history.

	Carrying value £	Maximum exposure £
Cash and receivables		
Cash and cash equivalents	22,703	22,703
Trade and other receivables	30,206	30,206
	52,909	**52,909**

Cash flow interest rate risk

The interest rate profile of the financial assets and liabilities as at 31 December is as follows (excluding short term assets and liabilities):

Group and Company	Fixed interest maturing in 1 year or less £	Non-interest bearing £	Total £
2012			
Cash and cash equivalents			
Pound Sterling	-	22,703	22,703
US Dollar	-	-	-
	-	22,703	22,703
Loans and borrowings			
Pounds Sterling	396,353	-	396,353
2011			
Cash and cash equivalents			
Pound Sterling	-	108,200	108,200
US Dollar	-	9,847	9,847
	-	118,047	118,047
Loans and borrowings			
Pounds Sterling	-	-	-

17 Financial instruments *(continued)*

Interest rate sensitivity analysis
As loans and creditors are subject to only fixed interest rates, variations in commercial interest rates would have had have no impact upon the Group's and Company's result for the year ended 31 December 2012.

Foreign exchange risk
The table above shows the extent to which the Group and Company have monetary assets and liabilities in currencies other than the functional currency of the operating company involved. These exposures give rise to the net currency gains and losses recognised in profit or loss.

The Group carried limited exposure to foreign exchange risk during the period to 31 December 2012. Its costs are incurred almost entirely in pounds sterling and it has no current revenues. The Group and the Company's cash balances are maintained in Pounds sterling which is the functional and reporting currency of each Group company. Consequently no formal policies have been put in place in order to hedge the Group and Company's activities to the exposure to currency risk. It is the Group's policy to ensure that individual Group entities enter into transactions in their functional currency wherever possible. The Group considers this minimises any foreign exchange exposure.

The management regularly monitor the currency profile and obtain informal advice to ensure that the cash balances are held in currencies which minimise the impact on the results and position of the Group and the Company from foreign exchange movements.

Consequently the management do not consider that a Foreign Exchange sensitivity analysis is material to the results of the Group and the Company.

Capital
The objective of the Directors is to maximise shareholder returns and minimise risks by keeping a reasonable balance between debt and equity. To date the Group has been principally equity financed, reflecting the early stage and consequent relatively high risk of its activities. During 2012, the Group issued £444,743 in interest bearing loan notes pending the raising of further equity and/or public listing of its shares.

In managing its capital, comprising equity, as described in the Statement of Changes in Equity, and loan notes, as disclosed in Note 11, the Group and Company's primary objective is to ensure its ability to provide a sufficient return for its equity shareholders, principally though capital growth. In order to achieve and seek to maximise this return objective the Group and Company will in the future seek to maintain a gearing ratio that balances risks and returns at an acceptable level while also maintaining a sufficient funding base to enable the Group and Company to meet its working capital and strategic investment needs. In making decisions to adjust its capital structure to achieve these aims, either through new share issues, increases or reductions in debt, or altering a dividend or share buyback policies, the Group considers not only its short term position but also its medium and longer term operational and strategic objectives.

Borrowing facilities
During 2012 the Company raised £444,743 through the issue of loan notes. Interest accrues on the loan notes at a rate of 7.5% per annum and totalled £19,958 at 31 December 2012. In the event of an AIM admission or Initial Public Offering of the Company, the loan notes plus accrued interest will convert into ordinary shares of the Company at a price equivalent to 80% of the offering price. Otherwise the loan notes will be redeemed on 30 September 2013. Due to the expected conversion, a fair value of £122,412 has been ascribed to the equity component and is reflected in the convertible debt option reserve within capital and reserves. There has been an additional interest charge of £54,064 to reflect the effective interest rate of the loan notes.

Hedges
The Group did not hold any hedge instruments at the reporting date.

19 Financial commitments

The Group has authorised and committed to capital expenditure in the current period as part of the exploration and development work programme for the licences in which it participates:

	2012 £	2011 £
Authorised but not contracted	64,000	9,250,000
Contracts	132,000	461,000
	196,000	**9,711,000**

All capital commitments derive from the Group's participation in its joint venture operations and entities. Pending resolution of the financial position of the operator of both exploration licences, ATP (UK) Limited, current commitments are limited to licence fees and general work.

20 Related party transactions

Key management and personnel remuneration for the period was £20,910 (2011: £76,348).

Acura Oil & Gas Limited, of which Michael Jordan is a director, acquired 37,200 shares during the year (2011 – 8,825,579) for £23,473 bringing its total holding to 8,862,779 shares being 18.8% of the total issued share capital.

Mark Routh acquired 37,768 shares during the year (2011 – 2,247,748) for £23,818 bringing his total holding to 2,285,516 shares being 4.8% of the total issued share capital. He also subscribed for £200,000 in loan notes (2011 – £nil) upon which £9,904 of interest was outstanding at 31 December 2012.

Peter Young received £20,910 for consultancy services during the year (2011 - £41,678), of which £4,335 was outstanding at year end (2011 - £nil), and also subscribed for 8,000 shares (2011 – 6,540,281) for £5,048 bringing his total holding to 6,548,281 being 13.9% of the total issued share capital. In addition his wife, Fiona Young, held 6,600,436 shares (2011 – 6,600,436) being13.9% of the total issued share capital.

Marie Louise Clayton held 2,419,518 shares (2011 – 2,419,518) directly plus a further 40,655 shares (2011 – nil) acquired for £25,639 during the year through Clayton Consulting Partners, of which she is a director, being 5.1% and 0.1% of the total issued share capital respectively.

Thomas Hardy acquired 5,020 shares during the year (2011 – 298,767) for £3,166 bringing his total to 303,787 shares being 0.6% of the total issued share capital.

21 Subsequent events

During 2013 to-date the Company has raised additional finance totalling £172,392 through the issue of loan notes. Interest accrues on the loan notes at a rate of 7.5% per annum. In the event of an admission to AIM or Initial Public Offering of the Company the loan notes plus accrued interest will convert into ordinary shares of the Company at a price equivalent to 80% of the offering price. Otherwise the loan notes will be redeemed on 30 September 2013.

The Company announced on 16 September 2013 its intention to seek admission to the Alternative Investment Market ("AIM") of the London Stock Exchange with associated new funding.