



REPORT AND AUDITED FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2013

Company Number 07434350

Page	Contents
2	Chief Executive's Review
3	Strategic Report
8	Board of Directors
9	Remuneration Policy
10	Corporate Governance Statement
12	Glossary of Key Technical Terms
13	Report of the directors
15	Independent auditor's report
16	Consolidated statement of comprehensive income
17	Consolidated and Company statements of changes in equity
18	Consolidated statement of financial position
19	Company statement of financial position
20	Consolidated cash flow statement
21	Company cash flow statement
22	Notes forming part of the financial statements
39	Information and advisers

I am delighted to be providing a review of our progress over the last year, our first as a listed company and also providing a Strategic Report which restates and updates the Company's blueprint on how the Board plans to deliver value to our shareholders in the years ahead.

Extension of Key Licences and Recapitalisation of Licence Partner

IOG joined AIM on 30th September 2013 and whilst we were confident of a positive outcome, we were waiting for our key Blythe and Skipper licences to be extended which was contingent upon our partner and operator of these licences ATP Oil and Gas UK Ltd ("ATP UK") being sold and recapitalised to the satisfaction of the Department of Energy and Climate Change ("DECC"). It is very significant that these licences have now been extended to 30th September 2015 and ATP UK has been acquired by a private equity firm Petroleum Equity LLP thus removing the restrictions imposed by its US parent's insolvency proceedings. The operating company has been renamed Alpha Petroleum Resources Ltd and is fully funded for the development and appraisal activity on Blythe and Skipper.

Significant Portfolio Growth Delivered at Modest Cost

IOG has delivered significant growth in its portfolio at only modest cost with the award of a new licence to the east of Blythe (adding 42 BCF¹ prospective net resources) and the pending Cronx acquisition (adding 17.6 BCF² contingent net resources). We have applied to DECC to operate the Cronx licence and have put in place the necessary Health, Safety and Environmental systems and personnel required to operate. We have also invested heavily in three licence applications in the UK 28th Licence Round, all of which contain discoveries and could very significantly increase IOG's resources. The announcement of the 28th Round awards is expected later this year.

Significant progress made on funding, strengthening the board and key third party agreements

We are pleased to have agreed a \$50m senior loan facility with a large US lender, which is at the final documentation stage. This is expected to be used to part fund our Blythe development which is scheduled to deliver first production to the Company in 2016. It may also be used to fund the potential acquisition of producing assets or other assets in the portfolio.

We have strengthened the Board significantly with the recruitment of Paul Murray who has already made a significant contribution. Paul is the ex FD of LASMO which was a FTSE 100 oil and gas company prior to being acquired by ENI in 2001. He also has an extensive career as a non-executive director and is a founder shareholder of IOG.

We are pleased to strengthen further our relationship with BP by signing a gas marketing agreement with BP Gas Marketing to offtake our gas from the Blythe field development. This is in addition to the crude sales agreement we have in place for Skipper.

Value and Milestones

Your Board believes that based upon independent reserve reports, IOG's assets are worth considerably more than its current market capitalisation and accordingly the directors intend to explore all forms of potential fundraising including at asset level.

We are excited by the significant near term milestones ahead for the Company including submission of the Blythe Field Development Plan ("FDP"), securing a rig for the Skipper appraisal well, becoming an approved operator and completing the Cronx acquisition along with potential transformational licence awards in the 28th Round and the potential to acquire producing assets.

The strategy adopted by the Company is a proven one and we remain committed to delivering significant value to shareholders by building a significant development and production business focused on the UK Continental Shelf ("UKCS").

1 IOG internal estimates

2 ERC Equipose Competent Person's Report – July 2012

Principal 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 ("IOG"). On 30 September 2013 the Company's shares were admitted to trading on the AIM market of the London Stock Exchange.

The Company has its headquarters in London and its oil and gas interests are located in the UK sector of the North Sea.

IOG's strategy is to target 'stranded' assets and dormant discoveries, especially those near to existing and ideally, owned infrastructure (the "Hub Strategy"). These are assets that are marginal for the Major oil companies but are potentially profitable developments which can be beneficially developed by a smaller independent company, focused on the North Sea.

The aim is to build on the existing development assets in order to achieve a diversified, balanced, portfolio of near and long term developments with exploration upside that complement the existing operations. This will include the acquisition of producing fields or near-term production if the risk is positively assessed and the acquisition price results in value accretion.

The Directors believe that there is a significant opportunity for the Company to exploit given that there are over 400 undeveloped and underdeveloped assets in the UKCS and in addition, the Majors are in long term exit mode.

In addition to targeting stranded assets, IOG is also following and developing the Hub Strategy model successfully developed originally in the Gulf of Mexico and subsequently and similarly successfully deployed by Venture Production, Dana Petroleum and CH4 Energy in the North Sea. The Hub Strategy targets dormant discoveries and exploration prospects nearby owned infrastructure where tariffs are already agreed and ullage is available in the offtake route for the production. IOG has already delivered on this strategy by the successful award of the Skipper West Area Licence and the Blythe East Area Licence and by agreeing to acquire the Cronx discovery, which is subject to completion.

IOG believes it has the skills and competencies to become an operator and this will be instrumental in achieving the aforementioned growth and we are very pleased to have lodged with DECC our application to operate the Cronx licence.

Operator status gives a licensee more control over the field development plan and its execution. This also makes it easier to deliver on the Hub Strategy because as the operator of owned infrastructure, third party consents to tie in additional discoveries are easier to facilitate. Also, as the Majors continue to divest late life producing assets they often prefer to assign operatorship and redeploy their own resources and so additional opportunities arise. In the UK licensing rounds, certain licences will only be made available to pre-qualified operators.

Overall, the Board is confident that the Company has the management, experience and technical expertise to create and seize new opportunities for future growth.

Independent Oil and Gas plc and its wholly owned subsidiary IOG North Sea Ltd ("IOGNS") is a 50% licensee on two Traditional Licences and a 100% licensee on two Promote Licences all in the North Sea:

- P 1736 covering blocks 48/22b and 48/23a in which lies the Blythe gas field;
- P1609 covering block 9/21a in which lies the Skipper oil discovery;
- P1941 covering blocks 8/20a and 8/25a; and
- P2085 covering blocks 48/23c and 48/24b.

Licences P1736 and P1609 are operated by Alpha Petroleum Resources Ltd ("Alpha") which has the remaining 50% of each licence. IOG is the licence administrator on licences P1941 and P1609 and currently has applied to operate licence P1737 covering block 48/22a (containing Cronx) to the west of the proposed Blythe field development. This application is subject to the completion of the acquisition of the licence from Swift Exploration Ltd.

As the non-operator on licences P1736 and P1609, IOG pays the operator to carry out the technical work required to bring the Blythe gas field and the Skipper oil field into production. However, the IOG Technical Team brought both the Blythe and Skipper opportunities to Alpha (previously named ATP Oil & Gas UK Ltd) and contributed a significant amount of work to the original licence applications. This collaborative approach has continued during the work programmes of both licences.

Statement of Reserves and Resources

The Group's Proved, Probable and Possible reserves and resources for the Blythe and Skipper Hubs as at 31 December 2013 were as follows:-

Blythe Hub Reserves and Resources

Net (Bcf)	1P	2P	3P
*Blythe	11.2	17.2	23.7
Net (Bcf)	1C	2C	3C
*Cronx	7.7	17.6	40.4
† Blythe – Carboniferous	21	30	90
‡ Truman	–	25	–
‡ Harvey	–	16	–
Total Blythe Hub	40	106	154

Sources: * ERC Equipoise CPRs September 2013 & July 2012.

† Tullow 48/23a Relinquishment Report May 2009.

‡ IOG internal view May 2014.

Skipper Hub Resources

Net (MMBbls)	1C	2C	3C
Skipper	9.0	12.9	17.5
Skipper – Maureen	1.8	3.3	5.6
Skipper – Dornoch	1.2	2.0	3.1
*Theakston	1	4	24
*Moorhouse	13	24	31
Total Skipper Hub	26	46	82

Sources: AGR Tracs CPR September 2013 except * IOG internal view May 2014

Operational Update

Blythe

The Blythe gas discovery straddles Blocks 48/22b and 48/23a in the Southern North Sea in licence P1736 which is 50% co-owned by IOG and Alpha Petroleum Resources Ltd (operator). Blythe needs no further appraisal and has independently verified gross 2P reserves of 34.3 BCF (6.1 MMBoe) which is 17.2 BCF (3.0 MMBoe) net to IOG. (Source: ERC Equipoise Competent Person's Report dated September 2013.)

The partnership is working towards submitting a Field Development Plan for Blythe by 4Q 2014. IOG is targeting first gas from the Blythe field in mid-2016 but the final development schedule has yet to be formalised.

The Blythe operator Alpha Petroleum Resources Ltd has received tenders for the pipeline route and site survey for the Blythe field development and now expects the survey results to be available in Q3 2014. This means that the submission of the Field Development Plan ("FDP") for Blythe will now occur in Q4 2014. First gas from the field is now targeted in mid-2016.

Under the agreement signed with BP Gas Marketing Ltd in February, IOG is now well positioned to be able to sell its 50% share of the gas produced from the Blythe gas field development.

Skipper

The Skipper oil discovery is in Blocks 9/21a in the Northern North Sea in licence P1609 which is 50% co-owned by IOG and Alpha Petroleum Resources Ltd (operator). Skipper needs further appraisal by drilling a well to retrieve core and oil samples in order to design the optimum field development plan for the field. Skipper has independently verified gross 2C resources of 26.2 MMBbls which is 13.1 MMBbls net to IOG. The appraisal well will also target two exploration prospects directly beneath the Skipper oil discovery which may contain oil in place of 46 MMBbls. (Source: AGR Tracs Competent Person's Report dated September 2013.)

An appraisal well on the Skipper licence is expected to take place in Q2/Q3 2015. The well will appraise the Skipper discovery and target two exploration prospects directly beneath the Skipper discovery.

Cronx (Acquisition subject to completion)

The acquisition of 100% of the Cronx licence, as previously announced, remains ongoing. The licence has been extended by the Department of Energy and Climate Change (“DECC”) to the end of 2014, providing additional time for completion. Completion is subject to funding a pilot well, which allows IOG to qualify as an ‘exploration operator’ in the UKCS. IOG submitted its application to operate this licence in March 2014.

The Cronx gas discovery is 14km north-west of the Blythe field in which IOG holds 50%. Cronx was discovered in 2007 by well 48/22b-6 drilled by Perenco UK Ltd. Subject to agreement with the co-owner of the Blythe field, Alpha Petroleum Resources Ltd and the successful development of Blythe, the gas export of Cronx would be via the Blythe hub which will be 50% owned by IOG.

IOG commissioned an independent Competent Person’s Report (CPR) by ERC Equipoise on Cronx in July 2012 which shows a base case expected gas recovery of 17.6 BCF or 3.4 MMBOE 2C resource. IOG anticipates drilling a pilot well in Q4 2014, subject to rig availability, the necessary permits and funding, which IOG currently estimates to be £6.25m. IOG expects the well to confirm the recoverable resources, which IOG believes has the potential to be larger than the 17.6 BCF base case in the CPR. The well would be reused and extended into a producing well as part of the field development.

Further information and maps of the Cronx field may be found on IOG’s website.

28th Licensing Round

In line with the Company’s hub strategy, IOG made applications for three licences in the 28th Seaward Licensing Round. The licences applied for are all discoveries and would add significant resources to the Company’s portfolio.

Asset Acquisitions

IOG is now also considering the acquisition of producing assets to support the wider development and growth of the business.

Finance Review

The Group made a loss of £1.03 million during 2013 (2012 – £0.45 million) of which £0.29 million comprised ongoing administrative costs (2012 – £0.39 million), £0.24 million comprised costs related to the Company’s listing on AIM (2012 – nil), £0.36 million comprised non-cash provisions for the issue of share options (2012 – nil) and £0.17 million comprised interest (2012 – £0.1 million), principally on loan notes which were converted into ordinary shares upon AIM listing. These charges were partially offset by a £0.02 million exchange gain (2012 – £0.05 million).

Capital expenditures incurred during the year were limited to £0.08 million (2012 – £0.39 million) whilst the operator of two of IOG’s field interests, ATP Oil and Gas (UK) Limited, completed its sale to Alpha Petroleum (UK) Holdings Limited.

Cash used in operations totalled £0.82 million (2012 – £0.20 million), after adjustments for non-cash items, whilst cash deployed on the purchase of fixed assets totalled £0.10 million (2012 – £0.43 million). Group financial resources were improved through the issue of £0.17 million of loan notes (2012 – £0.44 million) and the raising of £2.0 million in new equity subscriptions concurrent with the Company’s admission to AIM. The admission, which was completed on 30 September 2013, comprised the listing of 51,126,049 existing ordinary shares and admission of a further 8,405,800 ordinary shares at the listing price of 23.7931p for £2.0 million, less costs of £0.17 million. At the same time all outstanding loan notes and accrued interest were converted into ordinary shares leaving £1.12 million of available cash at 31 December 2013.

To strengthen the Group’s financial position further the Group recently announced a loan and equity swap and is in the process of negotiating a new senior debt facility.

Darwin Loan and Equity Swap

On 4th June 2014 IOG entered into a Loan and equity swap with Darwin Strategic Limited (“Darwin”). The Loan amount of £517,500 is immediately available to the company for working capital purposes. The company issued 5,526,000 shares at a price of 32p to Darwin in exchange for an equivalent number of Loan Notes. Darwin will sell the shares in the market under direction from IOG with the proceeds being used to redeem the Loan Notes. Once the Loan has been repaid the proceeds from the equity sales will be available to IOG for working capital purposes.

Senior Loan Facility

This US\$50 million senior loan facility is subject to completion of final documentation but has received the lender’s credit committee approval.

US\$25 million of the facility is expected to be available for the Blythe field development, contingent upon certain conditions, including the following:

- the approval of a Field Development Plan;
- execution of an agreed hedging programme;
- standard security arrangements;
- provision of the balance of development and cost overrun funding;
- final confirmation of Capex and Opex being in line with the ERC Equipoise Competent Person’s Report dated September 2013; and
- finalisation of the lender’s ongoing legal and technical due diligence review.

It is anticipated that the balance of IOG’s funding requirement will be financed by equity and junior loans and will be spent on the Blythe field development prior to draw down of the senior loan facility.

Part or all of the balance of the facility will become available for drawdown by IOG upon the completion of the Blythe field development or sooner if appropriate assets are acquired by IOG and added to the borrowing base. The lender is supportive in principle of using the facility to acquire appropriate producing assets.

The facility is expected to have a tenor of five years and is subject to the entry into definitive documentation.

Looking forward, IOG will need additional funds to develop its portfolio and intends to explore options to achieve this at both a corporate and at an asset level.

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 followed by the successful discovery and exploitation of oil and gas reserves as indicated through prospective, contingent and proved reserves inventories. Financial performance is tracked through the raising of finance to fund proposed programmes and the control of costs against budgets.

Principal 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 risks and associated mitigation are set out below.

Investment Returns: Management seeks to raise funds and then to generate shareholder returns through investment in a portfolio of exploration and development acreage leading to the drilling of wells, the discovery of commercial reserves followed by their exploitation. Delivery of this business model carries a number of key risks.

Risk	Mitigation
Market support may be eroded obstructing fundraising and lowering the share price	Management regularly communicates its strategy to shareholders Focus is placed on building an asset portfolio capable of delivering regular news flow and offering continuing prospectivity
General market conditions may fluctuate hindering delivery of the company's business plan	Management aims to retain adequate working capital to ride out downturns should they arise
Each asset carries its own risk profile and no outcome can be certain	Management aims to avoid over-exposure to individual assets and to identify the associated risks objectively

Operations: Operations may not go according to plan leading to damage, pollution, cost overruns and poor outcomes.

Risk	Mitigation
Individual wells may not deliver recoverable oil and gas reserves	Thorough pre-drill evaluations are conducted to identify the risk/reward balance Exposure is selectively mitigated through farm-out
Operations may take far longer or cost more than expected	Management applies rigorous budget control Adequate working capital is retained to cover reasonable eventualities
Resource estimates may be misleading curtailing actual reserves recovered	The Group deploys qualified personnel Regular third-party reports are commissioned A prudent range of possible outcomes are considered within the planning process

Personnel: The company relies upon a pool of experienced and motivated personnel to identify and execute successful investment strategies

Risk	Mitigation
Key personnel may be lost to other companies	The Remuneration Committee regularly evaluates incentivisation schemes to ensure they remain competitive

Commercial environment: World and regional markets continue to be volatile with fluctuations and infrastructure access issues that might hinder the company's business success

Risk	Mitigation
<p>Volatile commodity prices mean that the company cannot be certain of the future sales value of its products</p>	<p>Price mitigation strategies may be employed at the point of major capital commitment</p> <p>Gas may be sold under long-term contracts reducing exposure to short term fluctuations</p> <p>Oil and gas price hedging contracts may be utilised where viable.</p> <p>Budget planning considers a range of commodity pricing</p>
<p>The Group may not be able to get access, at reasonable cost, to infrastructure and product markets when required</p>	<p>A range of different off-take options are pursued wherever possible</p>
<p>Credit to support field development programmes may not be available at reasonable cost</p>	<p>The Company seeks to build and maintain strong banking relationships and initiates funding discussions at as early a stage as practicable</p>

Corporate Hedging Strategy and Implementation

Hedging is considered to be an integral part of IOG's risk management policy. The primary objective of the Company's hedging strategy is to provide protection of its projected cash flows, generated from operations, against unforeseen changes in short and medium term market conditions.

No hedging instruments were utilised during 2013 in view of the limited exposures carried during the year. As the company's capital investment programmes increase hedging will be carried out in a simple and cost effective manner, retaining exposure to upside but avoiding any speculative exposure to commodity prices or exchange rates. The application of the policy is within a range to require exercise of management judgement in the light of market conditions and business variables.

Details of the Group's financial instruments can be found in note 18 to the financial statements.

Insurance

The Group insures the risks it considers appropriate for the Group's needs and circumstances. However, the Group may elect not to have insurance for certain risks, due to the high premium costs associated with insuring those risks or for various other reasons, including an assessment that the risks are remote.

Going concern

The Group had cash reserves of £133,652 at 1 June 2014 and will shortly receive an additional £517,500 from the drawdown of a Loan with Darwin Strategic Ltd ("Darwin"), which will be paid on or before 12 June 2014.

On 5 June 2014, the Company announced an additional new funding arrangement with Darwin pursuant to which Darwin has subscribed for 5,625,000 ordinary shares of the Company at a price of 32 pence each. The aggregate issue price of £1,800,000 is to be satisfied by the issue of 1,800,000 redeemable subscription notes of £1 each by Darwin to the Company conditional upon the new shares being admitted to trading on AIM on or before 12th June 2014. Over the course of the 36 months following admission the Company will, at its sole discretion, instruct Darwin to sell the shares and redeem the subscription notes as noted above Darwin has also made a loan of £517,500 available to the Company which is to be repaid from the sale of subscription shares over the next twelve months. The repayment amount will be £575,000 if paid within 6 months. An additional 5% will be payable on any outstanding balance if paid within 12 months.

In addition, the Company is currently in negotiation for a \$50 million finance facility. The Directors are confident that this facility will be agreed as they understand that it has already received the lender's credit committee approval. This facility would be available, subject to a range of conditions precedent, to fund part of the Group's Blythe field development and potentially, other future development programmes or the acquisition of a producing asset.

The directors also expect to direct Darwin to sell shares issued under an equity swap that would provide additional cash once the Darwin Loan has been repaid. The directors expect, although cannot guarantee, that this will be sufficient to cover overheads and a minimum work programme on the assets for the next twelve months. In order to meet all of the licence commitments by the end of September 2015, the Group needs to raise further funds or to secure a farm out partner.

The directors are continuing to pursue a range of further funding options, including looking to secure a farm-out partner. Although there can be no certainty of successful outcomes the directors are confident that such financing will be achieved.

These conditions indicate the existence of a material uncertainty related to events or conditions that may cast significant doubt about the Group's ability to continue as a going concern and, therefore, that it may be unable to realise its assets and discharge its liabilities in the normal course of business. These financial statements do not include the adjustments that would be required if the Group could not continue as a going concern.

On behalf of the Board

Mark Routh
Director

5 June 2014

IOG is led by a strong, disciplined Board with extensive experience in all aspects of the Company's business supported by a capable and experienced management team. Their experience covers both ends of the investment spectrum from private equity backed start-up companies to FTSE-100 listed companies. The Board is supported by a capable and experienced management team who provide their services as required on a contract basis.

Mehdi Varzi – Non-executive Chairman

Mr Varzi is highly experienced with considerable oil and gas knowledge. He is a Member of the international advisory panel, RECIPCO, with specific responsibility for energy developments and an advisor to Una Oil S.A, a private offshore international oil services company. He has held various high profile city jobs including Managing Director, Global Energy Research at Dresdner Kleinwort Wasserstein and vice Chairman of Gulf Keystone Petroleum plc. Mr Varzi is the Chair of the Audit Committee and a member of the Remuneration Committee.

Mark Routh – Chief Executive Officer

Mr Routh has over 30 years' experience in the oil and gas industry. He is the former Chief Executive Officer and founder of oil and gas company, CH4 Energy Limited, which was an owner and operator in the North Sea. CH4 was formed with £1 million funding from management and 3i in 2002 and sold to Venture Production plc in 2006 for £154.4 million, providing 3i a with a record 7.3 multiple return on its investment. Prior to founding CH4, Mr Routh served for ten years with Amerada Hess, six years with BP and five years with Schlumberger in South East Asia and the North Sea. Mr Routh is also the non-executive Chairman of Warrego Energy Ltd a company with onshore gas assets in Western Australia.

Peter Young – Chief Financial Officer

Mr Young has over 15 years' experience in oil and gas banking and finance with a focus on the mid-cap E&P sector. He was previously on the board of Ebor Energy Inc. and Multi Operational Service Tankers Inc. He was a founder member of IOG in 2011 as Business Development Director and became CFO in February 2013. Prior to that he was Regional Head of Energy Derivative Sales at Standard Chartered Bank.

Marie-Louise Clayton – Non- Executive Director

Ms Clayton has 30 years' experience. She is the former Chief Financial Officer of oil and gas company, Venture Production plc. Prior to joining Venture, Ms Clayton was Group Finance Director and Chief Information Officer of the Primary Food Division of Associated British Foods plc and served at a number of major industrial companies including ExxonMobil, Alcatel, and GEC Alstom. She is currently a non-executive director of fully listed Diploma plc, AIM quoted Zotefoams plc and Geoffrey Osborne Ltd, a large private construction company. Previously Ms Clayton was the chair of Audit at Forth Ports plc. Ms Clayton is a member of the Audit and Remuneration Committees.

Michael Jordan – Non-executive Director

Mr Jordan is a serial entrepreneur leading the successful development and subsequent divestment of three environmental groups between 1995 and 2006. He formed Acura Investment group in 2007 and, as Chief Executive Officer, has investments in energy, property, retail and the oil and gas sector. Mr Jordan is the Chair of the Remuneration Committee and a member of the Audit Committee.

Paul Murray – Non-executive Director

Mr Murray is currently the Chair of Audit and Independent Non-Executive Director of Royal Mail Holdings plc and QinetiQ plc. Treasurer and Trustee of Pilotlight, a charity and a Non-Executive Director of three private companies Knowledge Peers plc, Naked Energy Ltd and Ventive Ltd. Previously Group Finance Director of Carlton Communications plc and LASMO plc a FTSE 100 listed North Sea Oil and Gas Company. Trained as a Petroleum Engineer with Mobil following a BSc in Engineering Science from Durham University. Mr Murray is a member of the Audit and Remuneration Committees.

Remuneration comprises a mix of salary payments and equity incentives. During the initial investment phase the mix is weighted towards incentives rather than cash payments.

Options and Long Term Incentive Plan Policy

The Board believes that it is important that employees of the Group (including executive directors) are appropriately and properly motivated and rewarded, with the success of the Group dependent to a significant degree on the future performance of the executive management team. Accordingly, the Board has adopted the Long Term Incentive Plan ("LTIP") allowing the Company to grant to directors and employees options over ordinary shares. The LTIP is administered by the Remuneration Committee and the maximum aggregate awards under the LTIP, together with any other employee share schemes, cannot exceed ten per cent of the issued share capital of the Company at the time of grant.

Upon AIM Admission on 30 September 2013, the Board granted options over 4,500,000 Ordinary Shares to the Company's executive Directors pursuant to the Long Term Incentive Plan. These options were granted in two tranches with exercise prices of 29.74p and 41.63p per Ordinary Share respectively. The options are not be exercisable for a minimum of three years from the date of grant and only vest where the price of the Ordinary Shares on AIM exceeds 47.58p and 59.48p per Ordinary Share, respectively, for 20 consecutive trading days and provided certain key performance indicators set by the Remuneration Committee at the time of grant are satisfied.

In addition, to reward the outstanding work performed by certain members of the IOG team in the development of IOG to achieve Admission to AIM, the Board has granted options over a further 6,873,946 Ordinary Shares. These options were granted pursuant to individual option agreements between the Company and the individual rather than pursuant to the Long Term Incentive Plan. Such options are exercisable at a price of 1p per Ordinary Share at any time after 1 January 2015 until 30 June 2015 and are not subject to any performance conditions.

The Directors may establish further share incentive arrangements for the benefit of the Group's employees in the future. Any options to be granted under any such share incentive arrangements will be at the discretion of the Remuneration Committee. Options may also be granted to non-executive directors of, and consultants to, the Group. These options will not be granted pursuant to the Long Term Incentive plan, but will be granted under individual option agreements between the Company and the individual concerned.

Details of the options over ordinary shares and details of remuneration can be found in Note 4 to the Financial Statements.

The Directors recognise the importance of sound corporate governance commensurate with the size and nature of the Company and the interests of its Shareholders. The Corporate Governance Code does not apply to companies quoted on AIM and there is no formal alternative for AIM companies. The Quoted Companies Alliance has published a set of corporate governance guidelines for AIM companies, which include a code of best practice for AIM companies, comprising principles intended as a minimum standard and recommendations for reporting corporate governance matters.

Set out below is a description of the Company's corporate governance practices.

The Board

The Board meets regularly and is responsible for strategy, performance, approval of any major capital expenditure and the framework of internal controls.

The Board is responsible for establishing and maintaining the Group's system of internal financial controls and importance is placed on maintaining a robust control environment. The Board has established key procedures to provide effective internal financial control including the following:

- monthly management reporting to enable the Board to monitor the performance of the Group;
- the adoption and review of a comprehensive annual budget for the Group. Monthly results are examined against the budget and deviations closely monitored by the Board;
- the Board is responsible for identifying major business risks faced by the Group and for determining the appropriate courses of action to manage those risks.

The Board includes four non-executive directors. If necessary, the non-executive directors may take independent advice. The Board has delegated specific responsibilities to the committees referred to below.

Audit Committee

The Audit Committee comprises Mehdi Varzi (Chairman), Marie-Louise Clayton, Paul Murray and Michael Jordan. The Audit Committee has primary responsibility for monitoring the quality of internal controls and ensuring that the financial performance of the Group is properly measured and reported on. In addition, it receives and reviews reports from the Company's management and auditors. The Audit Committee meets at least twice a year and has unrestricted access to the Company's auditors.

Remuneration Committee

The Remuneration Committee comprises Michael Jordan (Chairman), Marie-Louise Clayton, Paul Murray and Mehdi Varzi. The Remuneration Committee determines the remuneration of the executive directors and grants share options and any other equity incentives pursuant to any share option scheme or LTIP in operation from time to time. The Remuneration Committee meets at least twice a year.

Nomination committee

There is no nomination committee. This will be reviewed as the business progresses.

Health, Safety and Environmental policy

The IOG Health, Safety and Environmental (HSE) Policy has been developed for the formal IOG Environmental Management System (EMS) in accordance with the requirements of the ISO14001 Standard. The most recent version of the policy was approved by the IOG board on 27 February 2014. This policy will guide the development of the IOG EMS and its operating practices going forward.

Environmental management

As referenced above, an EMS is currently in development to manage the environmental aspects of IOG's offshore operations. The scope of the EMS will cover offshore exploration drilling, site and environmental surveys, and office based activities carried out in support of these offshore operations. It is the goal of IOG to achieve both external certification of the EMS to ISO14001 and associated verification to OSPAR Recommendation 2003/5 by November 2014.

A key part of the function of the EMS will be to identify the significant environmental aspects of IOG's offshore operations and related legal and other requirements. As such the initial phase of EMS development is focussing on the development of an Environmental Aspects Register and Register of Environmental Legislation. This will allow IOG to focus on managing the key environmental aspects of its operations and help maintain legal compliance throughout. This will also facilitate the setting of appropriate objectives and targets for the control of environmentally significant aspects.

A plan outlining the future operational control procedures designed to practically manage environmental aspects will also be developed to show that the anticipated requirements for operational control have been identified. IOG intends to complete these fundamental steps in the development of the EMS by the end of 2014. A series of external independent progress reviews of the EMS will be undertaken by a third party consultancy at key stages to ensure it is developed and implemented appropriately, providing both assurance within IOG and to external parties such as DECC.

EMS requirements will be implemented and monitored on a practical basis during the planning of drilling operations (and ongoing general office activities) as it is developed, allowing for formal external assessment of its practical implementation at a later date. IOG is aware of its position as a small operator relying on major contractors to conduct operations offshore where its significant environmental aspects and related impacts will be found. As such operational control procedures and related documents such as bridging documents will be designed to ensure the effective implementation of the IOG EMS and its standards throughout both the planning and execution of offshore operations. This will focus on key areas such as contractor appraisal, competency and training, interfacing of management systems and monitoring of operations offshore. This will take account of key ongoing communication from DECC, regarding operator and contractor EMS interfacing, circulated since the Deepwater Horizon incident.

Bribery Act Policy

IOG's policy is to conduct all of its business in an honest and ethical manner. IOG applies a zero-tolerance approach to bribery and corruption and is committed to acting professionally, fairly and with integrity in all its business dealings and relationships wherever it operates by implementing and enforcing effective systems to counter bribery.

On behalf of the Board

Mark Routh
Director

5 June 2014

2P	the sum of Proved Reserves plus Probable Reserves;
2C	the best estimate of Contingent Resources;
Bbl or Bbls	a unit of volume measurement used for petroleum and its products (for a typical crude oil 7.3Bbls = 1 tonne, 6.29Bbls = 1 cubic metre);
Block	an areal subdivision of the UKCS of 10 minutes of latitude by 12 minutes of longitude measuring approximately 10 by 20 kilometres, forming part of a quadrant. Each quadrant is divided into a grid five blocks wide and six deep, and numbered 1 to 30 from NW to SE;
BCF	billions of cubic feet (of natural gas);
BOE	barrels of oil equivalent;
Contingent Resources	those quantities of petroleum estimated to be potentially recoverable from known accumulations by application of development projects, but which are not currently considered to be commercially recoverable due to one or more contingencies;
MMBbls	millions of barrels of oil;
MMBOE	millions of barrels of oil equivalent;
Probable Reserves	those unproved reserves which analysis of geological and engineering data suggests are more likely than not to be recoverable. In this context, when probabilistic methods are used, there should be at least a 50% probability that the quantities actually recovered will equal or exceed the sum of estimated Proved plus Probable reserves;
Proved Reserves	those quantities of petroleum which, by analysis of geological and engineering data, can be estimated with reasonable certainty to be commercially recoverable, from a given date forward, from known reservoirs and under current economic conditions, operating methods and government regulations. Proved reserves can be categorised as developed or undeveloped. If deterministic methods are used, the term reasonable certainty is intended to express a high degree of confidence that the quantities will be recovered. If probabilistic methods are used, there should be at least a 90% probability that the quantities actually recovered will equal or exceed the estimate; and
Reserves	those quantities of petroleum anticipated to be commercially recoverable by application of development projects to known accumulations from a given date forward under defined conditions. Reserves must further satisfy four criteria: they must be discovered, recoverable, commercial and remaining (as of the evaluation date) based on the development project(s) being applied.

The directors present their directors' report and audited financial statements of Independent Oil and Gas plc ("the Company") and its subsidiaries ("the Group") for the year to 31 December 2013. All amounts are shown in Pounds Sterling, unless otherwise stated.

Dividend

The directors do not recommend the payment of a dividend (2012: £Nil).

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.

Directors and their interests

The directors who held office during the year, and to the date of this report, were:

Mark Routh

Peter Young

Mehdi Varzi

Marie-Louise Clayton

Michael Jordan

Thomas Hardy (resigned 22 March 2013)

Paul Murray (appointed 11 March 2014)

Directors' biographies and committee memberships are set out on page 8.

The Group has provided the directors with third party indemnity insurance of £10,578 (2012: £12,282).

The directors who held office at the end of the financial year had the following interests in the shares of the Company

Ordinary shares of 1p each	At 31 December 2013	At 1 December 2012
Mark Routh	4,121,189	2,285,516
Peter Young	13,544,820	6,548,281
Mehdi Varzi	–	–
Marie-Louise Clayton	2,550,773	2,460,173
Michael Jordan	6,775,742	8,862,779

The total holding of Marie-Louise Clayton includes 131,255 shares held through Clayton Consulting Partners of which she is a majority shareholder and director. The total holding of Michael Jordan is held through Acura Oil & Gas Limited of which he is a majority shareholder and director.

Details of directors' emoluments and share options are set out in note 4 to the financial statements.

Financial Instruments

Information on financial instruments can be found in note 18 to the financial statements.

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 to the financial statements.

Shareholder communications

The Company has a website, www.independentoilandgas.com, to provide information to shareholders.

Statement of directors' responsibilities

The directors are responsible for preparing the Strategic Report and 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 for that period. The directors are also required to prepare financial statements in accordance with the rules of the London Stock Exchange for companies trading securities on the Alternative Investment Market.

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.

Website publication

The directors are responsible for ensuring the annual report and the financial statements are made available on a website. Financial statements are published on the Company's website in accordance with legislation in the United Kingdom governing the preparation and dissemination of financial statements, which may vary from legislation in other jurisdictions. The maintenance and integrity of the Company's website is the responsibility of the directors. The directors' responsibility also extends to the ongoing integrity of the financial statements contained therein. The Company's website is www.independentoilandgas.com.

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 auditor is 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 auditor for that purpose, in order to be aware of any information needed by the Company's auditor in connection with preparing their report and to establish that the Company's auditor is aware of that information.

Auditor

BDO LLP has 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

5 June 2014

TO THE MEMBERS OF INDEPENDENT OIL AND GAS PLC

We have audited the financial statements of Independent Oil and Gas plc for the year ended 31 December 2013 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 Financial Reporting Council's (FRC'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 FRC'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 2013 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.

Emphasis of matter – Going Concern

In forming our opinion on the financial statements, which is not modified, we have considered the adequacy of the disclosures made in Note 1 to the financial statements concerning the Group's ability to continue as a going concern. The Directors expect that further funds will be required in the foreseeable future to finance the Group's planned work programme and settle historical liabilities. While the Directors are confident of being able to acquire the finance necessary to meet both capital and administrative obligations as they fall due, no committed facilities are in place.

These conditions indicate the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the Group was unable to continue as a going concern.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion the information given in the strategic report and 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.

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

5 June 2014

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

	Note	2013 £	2012 £
Other administrative expenses		286,303	391,587
Share-based payments		358,758	–
AIM listing costs		236,050	–
Exchange gain		(24,627)	(45,026)
Total administrative expenses		856,484	346,561
Operating loss	3	(856,484)	(346,561)
Finance expense	5	174,600	99,858
Loss before tax		(1,031,084)	(446,419)
Taxation	6	–	–
Total comprehensive loss attributable to owners of the parent	7	(1,031,084)	(446,419)
Loss per ordinary share – basic and diluted	7	(2.0p)	(0.9p)

The notes on pages 22 to 38 form part of these financial statements.

	Share capital £	Share premium £	Convertible debt option reserve £	Share based payment reserves £	Retained earnings/(deficit) £	Total equity £
Group						
At 1 January 2012	471,846	12,992,295	–	–	(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	473,235	13,078,402	122,412	–	(619,052)	13,054,997
Share capital issued	87,150	1,915,943	–	–	–	2,003,093
Share issue costs	–	(157,431)	–	–	–	(157,431)
Issue of warrants	–	(42,355)	–	42,355	–	–
Issue of convertible loan notes	–	–	43,827	–	–	43,827
Conversion of loan notes	34,934	630,060	(166,239)	–	166,239	664,994
Issue of share options	–	–	–	358,758	–	358,758
Loss for the year	–	–	–	–	(1,031,084)	(1,031,084)
At 31 December 2013	595,319	15,424,619	–	401,113	(1,483,897)	14,937,154
Company						
At 1 January 2012	471,846	12,992,295	–	–	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	473,235	13,078,402	122,412	–	6,848	13,680,897
Share capital issued	87,150	1,915,943	–	–	–	2,003,093
Share issue costs	–	(157,431)	–	–	–	(157,431)
Issue of warrants	–	(42,355)	–	42,355	–	–
Issue of convertible loan notes	–	–	43,827	–	–	43,827
Conversion of loan notes	34,934	630,060	(166,239)	–	166,239	664,994
Issue of share options	–	–	–	358,758	–	358,758
Loss for the year	–	–	–	–	(732,439)	(732,439)
At 31 December 2013	595,319	15,424,619	–	401,113	(559,352)	15,861,699

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).

Share-based payment reserve

Amounts reflecting fair value of options and warrants issued.

Retained earnings/(deficit)

Cumulative net gains and losses recognised in the Statement of Comprehensive Income net of amounts recognised directly in equity.

The notes on pages 22 to 38 form part of these financial statements.

Company Number: 07434350	Note	2013 £	2012 £
Non-current assets			
Exploration and evaluation assets	8	15,259,125	15,171,428
Current assets			
Other receivables	11	116,422	30,206
Cash and cash equivalents	16	1,120,411	22,703
		1,236,833	52,909
Total assets		16,495,958	15,224,337
Current liabilities			
Loan notes	12	–	(396,353)
Trade and other payables	12	(87,655)	(311,733)
		(87,655)	(708,086)
Non-current liabilities			
Trade and other payables	13	(1,471,149)	(1,461,254)
Total liabilities		(1,558,804)	(2,169,340)
NET ASSETS		14,937,154	13,054,997
Capital and reserves			
Called up equity share capital	14	595,319	473,235
Share premium account	14	15,424,619	13,078,402
Convertible debt option reserve	12	–	122,412
Share-based payment reserve	14	401,113	–
Retained deficit		(1,483,897)	(619,052)
		14,937,154	13,054,997

The financial statements were approved and authorised for issue by the Board of Directors on 5 June 2014 and were signed on its behalf by:

Peter Young
Director

The notes on pages 22 to 38 form part of these financial statements.

Company Number: 07434350	Note	2013 £	2012 £
Non-current assets			
Investments	9	12,591,943	12,591,943
Amounts due from subsidiaries	9	2,125,221	1,723,761
		14,717,164	14,315,705
Current assets			
Trade and other receivables	11	116,422	30,206
Cash and cash equivalents	16	1,120,411	22,703
		1,236,833	52,909
Total assets		15,953,997	14,368,613
Current liabilities			
Loan notes	12	–	(396,353)
Trade and other payables	12	(68,657)	(267,722)
		(68,657)	(664,075)
Non-current liabilities			
Trade and other payables	13	(23,641)	(23,641)
Total liabilities		(92,298)	(687,716)
NET ASSETS		15,861,699	13,680,897
Capital and reserves			
Called up equity share capital	14	595,319	473,235
Share premium account	14	15,424,619	13,078,402
Convertible debt option reserve	14	–	122,412
Share-based payment reserve		401,113	–
Retained (deficit)/earnings		(559,352)	6,848
		15,861,699	13,680,897

The financial statements were approved and authorised for issue by the Board of Directors on 5 June 2014 and were signed on its behalf by:

Peter Young
Director

The notes on pages 22 to 38 form part of these financial statements.

	Note	2013 £	2012 £
Cash flows from operating activities			
Cash used in operations	15	(820,318)	(198,935)
Net cash used in operating activities		(820,318)	(198,935)
Cash flows from investing activities			
Purchase of intangible non-current assets		(100,028)	(428,648)
Net cash used in investing activities		(100,028)	(428,648)
Cash flows from financing activities			
Proceeds from issue of ordinary shares		2,003,093	87,496
Costs of share issue		(157,431)	–
Proceeds from issue of loan notes		172,392	444,743
Net cash generated from financing activities		2,018,054	532,239
Increase/(decrease) in cash and cash equivalents in the year		1,097,708	(95,344)
Cash and cash equivalents at start of year		22,703	118,047
Cash and cash equivalents at end of year	16	1,120,411	22,703

The notes on pages 22 to 38 form part of these financial statements.

	Note	2013 £	2012 £
Cash flows from operating activities			
Cash used in operations	15	(813,548)	(156,094)
Net cash used in operating activities		(813,548)	(156,094)
Cash flows from investing activities			
Amounts invested in subsidiaries		(106,798)	(471,489)
Net cash used in investing activities		(106,798)	(471,489)
Cash flows from financing activities			
Proceeds from issue of ordinary shares		2,003,093	87,496
Costs of share issue		(157,431)	–
Proceeds from issue of loan notes		172,392	444,743
Net cash generated from financing activities		2,018,054	532,239
Increase/(decrease) in cash and cash equivalents in the year		1,097,708	(95,344)
Cash and cash equivalents at start of year		22,703	118,047
Cash and cash equivalents at end of year	16	1,120,411	22,703

The notes on pages 22 to 38 form part of these financial statements.

1 Accounting policies

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 in accordance with International Financial Reporting Standards adopted by the European Union, International Accounting Standards and Interpretations (collectively "IFRSs") and with those parts of Companies Act 2006 applicable to companies preparing their accounts under IFRS.

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 2013 unless otherwise stated.

Standard	Effective date	Impact on initial application
Amendments to IFRS 13 – Fair Value Measurement	1 Jan 2013	Applies for periods beginning on or after the effective date. No impact upon the Group or Company.
Amendments to IAS 1 – Presentation of items of Other Comprehensive income	1 July 2012	Applies for periods beginning on or after the effective date. No impact upon the Group or Company
IAS 19 – Employee Benefits	1 Jan 2013	Applies for periods beginning on or after the effective date. 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.

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
IFRS 9	Financial Instruments – Classification and Measurement	TBC
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
IAS 19	Defined Benefit Plans	1 July 2014
IAS 27	Separate Financial Statements	1 Jan 2014
IAS 28	Investments in Associates and Joint Ventures	1 Jan 2014
IAS 32	Financial Instrument Presentation	1 Jan 2014
IAS 36	Amendments regarding Recoverable Amount Disclosures	1 Jan 2014

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

Going concern

The Group had cash reserves of £133,652 at 1 June 2014 and will shortly receive an additional £517,500 from the drawdown of a Loan with Darwin Strategic Ltd ("Darwin"), which will be paid on or before 12 June 2014.

On 5 June 2014, the Company announced an additional new funding arrangement with Darwin pursuant to which Darwin has subscribed for 5,625,000 ordinary shares of the Company at a price of 32 pence each. The aggregate issue price of £1,800,000 is to be satisfied by the issue of 1,800,000 redeemable subscription notes of £1 each by Darwin to the Company conditional upon the new shares being admitted to trading on AIM on or before 12th June 2014. Over the course of the 36 months following admission the Company will, at its sole discretion, instruct Darwin to sell the shares and redeem the subscription notes as noted above Darwin has also made a loan of £517,500 available to the Company which is to be repaid from the sale of subscription shares over the next twelve months. The repayment amount will be £575,000 if paid within 6 months. An additional 5% will be payable on any outstanding balance if paid within 12 months.

In addition, the Company is currently in negotiation for a \$50 million finance facility. The Directors are confident that this facility will be agreed as they understand that it has already received the lender's credit committee approval. This facility would be available, subject to a range of conditions precedent, to fund part of the Group's Blythe field development and potentially, other future development programmes or the acquisition of a producing asset.

1 Accounting policies continued

Going Concern continued

The directors also expect to direct Darwin to sell shares issued under an equity swap that would provide additional cash once the Darwin Loan has been repaid. The directors expect, although cannot guarantee, that this will be sufficient to cover overheads and a minimum work programme on the assets for the next twelve months. In order to meet all of the licence commitments by the end of September 2015, the Group needs to raise further funds or to secure a farm out partner.

The directors are continuing to pursue a range of further funding options, including looking to secure a farm-out partner. Although there can be no certainty of successful outcomes the directors are confident that such financing will be achieved.

These conditions indicate the existence of a material uncertainty related to events or conditions that may cast significant doubt about the Group's ability to continue as a going concern and, therefore, that it may be unable to realise its assets and discharge its liabilities in the normal course of business. These financial statements do not include the adjustments that would be required if the Group could not continue as a going concern.

The directors intend to continue to pursue a range of further funding options, including funding at the asset level, to add to its financial resources. Although there can be no certainty of successful outcomes the directors are confident that such financing is likely to be achieved.

These conditions indicate the existence of a material uncertainty related to events or conditions that may cast significant doubt about the Group's ability to continue as a going concern and, therefore, that it may be unable to realise its assets and discharge its liabilities in the normal course of business. These financial statements do not include the adjustments that would be required if the Group could not continue as a going concern.

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.

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.

Oil and gas exploration assets and development/producing assets

The Group follows a successful efforts based accounting policy for oil and gas assets.

a) Pre-licensing

Expenditure incurred prior to the acquisition of a licence interest is expensed to the profit or loss as exploration expense written off.

b) Exploration

Expenditure incurred upon the award and subsequent exploration of a licence including lease costs, geological and geophysical data acquisition and analysis is capitalised initially with intangible assets on a licence by licence basis. 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 licence by licence basis until the success or otherwise of the well has been established. The success or failure of each exploration effort is judged on a licence by licence 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. The drilling and evaluation costs of reserves that have been determined commercial are transferred to development costs.

c) Development

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. Such costs are charged to the profit or loss on a unit of production basis.

d) Production

All costs of producing, transporting and processing oil and gas reserves are expensed in the profit or loss in the period in which the oil and gas is sold.

Disposals

Net proceeds from any disposal of an oil or gas asset are initially credited against the previously capitalised costs of that asset and any surplus proceeds are credited to the profit or loss. Net proceeds from any disposal of development/producing assets are credited against the previously capitalised cost of that asset and any surplus proceeds are credited to the profit or loss.

1 Accounting policies continued

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 profit or loss 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 profit or loss.

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 profit or loss 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.

Financial instruments

(i) Financial assets

Loans and receivables

The company's loans and receivables comprise amounts due from subsidiary undertakings.

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

Trade payables and other short-term monetary liabilities are held at amortised cost which, in view of their short term nature, is not materially different from their undiscounted cost.

Convertible loan notes

Upon issue of a convertible loan note, the proceeds are split between the liability component and the equity component at the date of issue. The fair value of the equity component is included in equity and it not re-measured whilst the liability component is included in liabilities, which is increased by the effective rate of interest charged in each period.

Upon conversion the face value of the loan notes are transferred to the share capital and share premium accounts.

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.

1 Accounting policies continued

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.

Share-based payments

Share options are offered to personnel to incentivise and reward successful corporate performance. The fair value of share options issued to company personnel is charged to the profit or loss, together with an increase in equity reserves, over the relevant vesting period. Fair values are calculated using the Black Scholes or Monte Carlo model and adjusted to reflect expected levels of vesting. No expense is recognised for options that do not ultimately vest except where vesting is only conditional upon a market condition.

The fair value of warrants issued to brokers in relation to share placings, calculated in the same way as for share options, is deducted from share premium and taken to a share based payment reserve.

Taxation

Tax on the profit or loss for the period comprises current and deferred tax. Tax is recognised in the profit or loss 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.

Earnings/loss per share

Earnings/loss per share is calculated as profit/loss attributable to shareholders divided by the weighted average number of ordinary shares in issue for the relevant period. Diluted earnings per share is calculated using the weighted average number of ordinary shares in issue plus the weighted average number of ordinary shares that would be in issue on the conversion of all relevant potentially dilutive shares to ordinary shares adjusted for any proceeds obtained on the exercise of any options and warrants. Where the impact of converted shares would be anti-dilutive, they are excluded from the calculation.

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 profit or loss 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.

1 Accounting policies continued

Critical Accounting Estimates, Uncertainties and Judgements

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.

Key areas for the application of management judgement currently include:

- the recoverability of the capitalised costs of its oil and gas fields. Booked costs are reviewed at least annually based upon expected recoverable oil and gas reserves, likely sales prices and projected costs of development, production, processing and transportation.
- the fair value of share options and warrants. The fair value of options and warrants is calculated using appropriate estimates of volatility, rates of return and impact of any attached conditions of exercise.

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.

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:

	2013 £	2012 £
Fees payable to the Company's auditor:		
for the audit of the Company's and Group's financial statements	25,000	24,000
for the audit related services	2,000	–
for services related to corporate finance transactions	9,600	27,500
Exploration expense	2,375	97,300
Staff costs – fees and salaries	165,793	23,027
Staff costs – share-based payments	358,758	–
Staff costs capitalised as oil and gas non-current assets	(24,913)	(12,432)
Foreign exchange gain	(24,627)	(45,026)

4 Staff costs and directors' remuneration

All personnel were engaged under consultancy contracts until completion of the Company's AIM listing on 30 September 2013. Thereafter directors were engaged under employment contracts.

During the period, the average number of personnel was:

	2013 Number	2012 Number
Management/operational	4	2
Directors	5	5

Personnel costs

	2013 £	2012 £
Wages, salaries and fees	155,878	23,027
Social security costs	9,915	–
Share-based incentives	358,758	–
	524,551	23,027

No pension plans are provided for directors or staff. Key management personnel are deemed to be the Directors.

Directors' remuneration

	Fees £	Salary £	Share-based incentives £	2013 Total £	2012 Total £
Mark Routh	–	33,000	158,977	191,977	–
Peter Young	13,770	25,000	90,824	129,594	20,910
Mehdi Varzi	–	16,667	–	16,667	–
Marie-Louise Clayton	–	5,000	27,725	32,725	–
Michael Jordan	–	5,000	14,106	19,106	–
Thomas Hardy	–	–	10,944	10,944	–
	13,770	84,667	302,576	401,013	20,910

Social security costs for the year for key management personnel were £9,915 (2012 – NIL).

The service agreements were effective from 1 September 2013 and those for Mark Routh, Peter Young, Marie-Louise Clayton and Michael Jordan provide that only 50% of the full contractual amount apply from that date until the sooner of either the date on which the Company has raised not less than gross funds of £10 million, or 31 December 2014. At that point the Company may settle the difference between the reduced rate and the full rate either in cash or through the granting of options over ordinary shares of the Company. The service agreement for Mehdi Varzi provides for an amount of £62,500 to be settled in cash or options over ordinary shares upon similar terms. Amounts at 31 December 2013 to which these terms relate totalled £133,000.

4 Staff costs and directors' remuneration continued

The directors' interests in options over 1p ordinary shares of the Company were as follows:

	Granted	Number	Exercise price	Expiry date
Mark Routh	23 Sept 2013	2,933,946	1p	30 June 2015
	23 Sept 2013	1,500,000	29.74p	23 Sept 2023
	23 Sept 2013	1,500,000	41.63p	23 Sept 2023
Peter Young	23 Sept 2013	1,700,000	1p	30 June 2015
	23 Sept 2013	750,000	29.74p	23 Sept 2023
	23 Sept 2013	750,000	41.63p	23 Sept 2023
Mehdi Varzi	23 Sept 2013	nil		
Marie-Louise Clayton ¹	23 Sept 2013	570,000	1p	30 June 2015
Michael Jordan ²	23 Sept 2013	290,000	1p	30 June 2015

1. This option has been granted to Clayton Consulting Partners Limited, a company in which Marie-Louise Clayton is a majority shareholder and a director.
2. This option has been granted to Acura Oil & Gas Limited, a company in which Michael Jordan is a majority shareholder and a director.

No share options were awarded prior to 23 September 2013 and consequently no share options were held by directors during the prior year or at 31 December 2012. Mark Routh as CEO and Peter Young as CFO were entitled to participate under the Group's Long Term Incentive Plan ("LTIP"). No gains have been made upon the exercise of share options to date. Exercising of LTIP options are conditional upon conditions set out in the Remuneration Policy and continued employment within the Company.

The Company paid £10,578 for Directors and Officers Liability insurance during the year (2012: £12,282).

5 Finance expense

	2013 £	2012 £
Loan note interest	140,076	74,022
Other Interest	34,524	25,836
	174,600	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.

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:

	2013 £	2012 £
Loss for the year	1,031,084	446,419
Income tax expense	–	–
Loss before income taxes	1,031,084	446,419
Expected tax credit based on the standard rate of United Kingdom corporation tax at the domestic rate of 23.25% (2012: 24.5%)	239,727	109,373
Expenses not deductible for tax purposes	(142,331)	(32,971)
Unrecognised taxable losses carried forward	(97,396)	(76,402)
Total tax expense	–	–

6 Taxation

Changes in tax rates and factors affecting the future tax charge

The main UK corporation tax rate from 1 April 2012 of 24% was reduced to 23% from 1 April 2013, resulting in an effective corporation tax rate of 23.25% for this accounting period. A number of changes to the UK corporation tax system were announced in the March 2013 Budget Statement. The Finance Act 2013 which was substantially enacted on 2 July 2013 includes legislation reducing the main rate of corporation tax from 24% to 23% from 1 April 2012 and further reducing the main rate of corporation tax from 23% to 21% from 1 April 2014 and to 20% from 1 April 2015. This will reduce the Company's future tax charge accordingly. Future net production revenues will 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. The amount of deductible temporary differences, unused tax losses and unused tax credits for which no deferred tax asset is recognised in the statement of financial position is £180,537 (2012 - £101,698). A deferred tax asset will only be created if there is reasonable certainty that profits will be earned in the foreseeable future.

7 Loss per share

	2013 £	2012 £
Loss for the year attributable to shareholders	(1,031,084)	(446,419)
Weighted average number of ordinary shares	50,434,060	47,290,496
Loss per share – pence	(2.0p)	(0.9p)

As the Group was loss making in both the current and prior years, any potentially dilutive instruments are considered to be anti-dilutive and therefore are not included in the calculation. Therefore the diluted EPS is equal to the basic EPS. As at 31 December 2013, potentially dilutive instruments in issue were 11,942,408 (2012 – 2,420,611).

8 Non-current assets

Exploration and Evaluation assets – Group

	2013 £	2012 £
At cost		
At beginning of the year	15,171,428	14,556,759
Acquisitions	–	229,588
Additions	87,697	385,081
At end of the year	15,259,125	15,171,428
Impairment at the beginning and end of the year	–	–
Net book value		
At 31 December	15,259,125	15,171,428
At 1 January	15,171,428	14,556,759

These costs comprise expenditures on the Group's Blythe and Skipper field interests plus some small amounts on the newly awarded licence interests. On 3 March 2014, the Blythe and Skipper licences were both extended by 18 months to 30 September 2015. Financial commitments on these licences are covered in note 19.

9 Investments

Company	Shares in Group companies £	Loans to Group companies £	Total £
At cost			
At 1 January 2012	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
Additions	–	401,460	401,460
At 31 December 2013	12,591,943	2,125,221	14,717,164

The Company has undertaken not to seek repayment of loans to other Group companies until each borrower has sufficient funds to make such payments.

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. The financial reporting periods for each end on 31 December.

10 Interests in jointly controlled assets

Licence	Beneficial interest %	Operator
United Kingdom		
Skipper oil field	50.00%	Alpha Petroleum Resources
Blythe gas field	50.00%	Alpha Petroleum Resources

11 Other receivables

	2013 £	2012 £
Group and Company		
Value added tax recoverable	116,422	30,206

12 Current liabilities

	2013 £	2012 £
Group		
Loan notes	–	396,353
Trade payables	58,441	186,889
Amounts due to joint venture partners	4,214	22,171
Accruals	25,000	102,673
	87,655	708,086
Company		
Loan notes	–	396,353
Trade payables	58,441	162,876
Amounts due to joint venture partners	4,216	22,171
Accruals	6,000	82,675
	68,657	664,075

During 2013 the Company raised additional finance totalling £172,392 (2012 – £444,743) through the issue of loan notes. Interest accrues on the loan notes at a rate of 7.5% per annum and totalled £47,859 at 30 September 2013 (31 December 2012 – £19,958). In view of the right to conversion into equity of the loan notes, a fair value of £166,239 (2012 – £122,412) was ascribed to the equity component and was reflected in the convertible debt option reserve within capital and reserves. There has been an additional interest charge in the year of £112,175 (2012 – £54,064) to reflect the effective interest rate of the loan notes.

Upon admission of the Company's shares to listing on AIM on 30 September 2013, total outstanding loan notes plus total accrued interest converted into ordinary shares of the Company at a price of 19.04 pence being 80% of the most recent offering price.

13 Non-current liabilities

	2013 £	2012 £
Group		
Trade creditors	1,471,149	1,461,254
Company		
Trade creditors	23,641	23,641

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. During 2013 Group trade creditors denominated in US\$ were reduced by £24,627 (2012 – £45,026) through changes to the £/US\$ exchange rate.

Of the Group's total trade creditors, £1,185,308 is due no later than 30 September 2016, this date having been extended by eighteen months from the previous repayment date of 31 March 2015. If not repaid before 31 March 2015 the interest rate increases from 3% to 9% from 31 March 2015 and the Company will issue 500,000 warrants at that date. Their book value equates to fair value.

The balance of the Group's creditors and also the Company's creditors are not due until after sustained production is achieved from the Skipper field.

14 Equity share capital

	Number	Share capital £	Share premium £	Total £
Allotted, issued and fully paid				
At 1 January 2012				
– Ordinary shares of 1 pence each	47,184,705	471,847	12,992,294	13,464,141
Equity issued	138,712	1,388	86,108	87,496
At 31 December 2012				
– Ordinary shares of 1 pence each	47,323,417	473,235	13,078,402	13,551,637
Equity issued	8,715,000	87,150	1,915,943	2,003,093
Equity issue costs	–	–	(157,431)	(157,431)
Warrants issued	–	–	(42,355)	(42,355)
Loan note conversion	3,493,437	34,934	630,060	664,994
At 31 December 2013	59,531,854	595,319	15,424,619	16,019,938
– Ordinary shares of 1 pence each				

On 30 September, concurrent with its admission to AIM, the Company issued 8,405,800 ordinary shares through a placing at a price of £0.238 each to raise £2,000,000 before issue costs of £157,431. The Company also issued a further 309,300 ordinary shares at a price of £0.01 each to raise £3,093 in satisfaction of rights attached to previously issued shares which crystallised upon listing.

Also upon admission to AIM all loan notes, plus associated interest, totalling £664,994 were converted into ordinary shares at a 20% discount to the placing price being 19.04 pence.

Share Options and warrants

During the year the Company issued share options under its share option plan.

	Number	Price pence	Grant	Expiry
1 January 2013	–	–		
AIM Bonus Options	6,873,946	1.00	23 Sept 2013	30 June 2015
LTIP	2,250,000	29.74	23 Sept 2013	23 Sept 2023
LTIP	2,250,000	41.63	23 Sept 2013	23 Sept 2023
31 December 2013	11,373,946	14.72		

The AIM bonus options may not be exercised before 1 January 2015. The LTIP options may not be exercised for a minimum of three years after their grant dates and then only vest when the market price of the Company's ordinary shares exceeds 47.58 pence in respect of the 29.74 pence options and 59.48 pence in respect of the 41.63 pence options for 20 consecutive days and provided service conditions set by the Remuneration Committee at the time of grant are satisfied. No share options were awarded prior to 23 September 2013 and consequently no share options were held by directors during the prior year or at 31 December 2012. Mark Routh as CEO and Peter Young as CFO were entitled to participate under the Group's Long Term Incentive Plan ("LTIP"). No gains have been made upon the exercise of share options to date. Exercising of LTIP options are conditional upon conditions set out in the Remuneration Policy and continued employment within the Company.

The remaining average contractual life of the 11,373,946 share options outstanding at 31 December 2013 was 4.75 years at that date. None of these options were exercisable at that date.

The weighted average exercise price of the options was 14.72 pence upon admission to AIM and at year end (2012 – nil).

The Company calculates the value of share-based compensation using the Black Scholes model for the AIM bonus options and warrants and Monte Carlo option pricing model for the LTIPs, to estimate the fair value of share options and warrants at the date of grant.

The fair value of options granted in 2013 is calculated as £358,758 and this has been charged to the profit or loss (2012 – nil). In each case the exercise price was determined as the actual exercise prices of 1 penny, 29.74 pence and 41.63 pence respectively rather than the hurdle prices of 46.58 pence and 59.48 pence for the latter two which must be achieved prior to vesting.

During the year the Company also issued 630,000 brokers warrants that may be exercised at any time prior to the second anniversary of the Company's listing on AIM. The fair value of warrants granted in 2013 is calculated as £42,355 and this has been charged to the share premium account (2012- nil). The exercise price was determined as the recent subscription price of 23.79 pence.

14 Equity share capital continued

The following assumptions were applied in the above calculations

	AIM bonus options	LTIP 29.74p options	LTIP 41.63p options	Brokers' warrants
Risk free interest rate	0.43%	0.43%	0.43%	0.43%
Dividend yield	nil	nil	nil	nil
Weighted avge life expectancy	1.8 years	5 years	5 years	2 years
Volatility factor	50%	50%	50%	50%

In view of the very short time since AIM listing an estimated volatility of 50% has been applied.

15 Cash flow statement

	Company £	Group £
2013		
Loss after tax	(732,439)	(1,031,084)
Adjustments for:		
Recharges to subsidiary for management and technical services	(294,662)	–
Interest on loan notes	140,076	140,076
Interest on long-term payable	–	34,524
Share-based payments	358,758	358,758
Foreign exchange	–	(24,627)
Increase in trade and other receivables	(86,216)	(86,216)
Decrease in trade and other payables	(199,065)	(211,749)
Cash used in operations	(813,548)	(820,318)
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)
Increase 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)

16 Cash and cash equivalents

Group and Company	2013 £	2012 £
Cash at bank	1,120,411	22,703

17 Company loss/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 loss for the year was £732,439 (2012: profit of £6,014).

18 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. At this stage, 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 and no derivatives or hedges were entered into during the year.

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 Chief Financial Officer 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 may arise are as follows:

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

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 twelve months for overheads and as commitments dictate for capital spend.

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 2013 loan notes totalling £617,135 (2012 balance – £444,743) plus interest accrued of £47,859 (2012 balance – £19,958) had been converted into equity leaving no loan notes outstanding.

18 Financial instruments continued

	Contractual cash flows £	6 months or less £	Greater than 6 months, less than 12 months £	Greater than 12 months £	Total undiscounted £	Carrying amount £
2013 Group						
Current assets						
Cash and cash equivalents	–	1,120,411	–	–	1,120,411	1,120,411
	–	1,120,411	–	–	1,120,411	1,120,411
Current financial liabilities						
Loan notes	–	–	–	–	–	–
Trade and other payables	–	87,655	–	–	87,657	87,657
Non-current financial liabilities						
Trade and other payables	–	–	–	1,681,614	1,681,614	1,681,614
	–	87,655	–	1,681,614	1,769,271	1,769,271
2012 Group						
Current assets						
Cash and cash equivalents	–	22,703	–	–	22,703	22,703
	–	22,703	–	–	22,703	22,703
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	–	–	–	1,681,614	1,681,614	1,681,614
	–	708,086	–	1,681,614	2,389,700	2,389,700

Trade and other payables include projected interest for the remaining term of loans.

18 Financial instruments continued

	Contractual cash flows £	6 months or less £	Greater than 6 months, less than 12 months £	Greater than 12 months £	Total undiscounted £	Carrying amount £
2013 Company						
Current assets						
Loans to Group companies	–	–	–	2,125,221	2,125,221	2,125,221
Cash and cash equivalents	–	1,120,411	–	–	1,120,411	1,120,411
	–	1,120,411	–	2,125,221	3,245,632	3,245,632
Current financial liabilities						
Loan notes	–	–	–	–	–	–
Trade and other payables	–	68,657	–	–	68,657	68,657
Non-current financial liabilities						
Trade and other payables	–	–	–	23,641	23,641	23,641
	–	68,657	–	23,641	92,298	92,298
2012 Company						
Current assets						
Loans to Group companies	–	–	–	1,723,761	1,723,761	1,723,761
Cash and cash equivalents	–	22,703	–	–	22,703	22,703
	–	22,703	–	1,723,761	1,746,464	1,746,464
Current financial liabilities						
Loan notes	–	396,353	–	–	396,353	396,353
Trade and other payables	–	267,722	–	–	267,722	267,722
Non-current financial liabilities						
Trade and other payables	–	–	–	23,641	23,641	23,641
	–	664,075	–	23,641	687,716	687,716

Trade and other payables include projected interest for the remaining term of loans.

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. All funds are currently placed with NatWest bank.

The Company also held loans to other Group companies totalling £2,125,221 and the maximum exposure at 31 December 2013 was £2,125,221.

Group and Company	Carrying value £	Maximum exposure £
Cash and receivables		
Cash and cash equivalents	1,120,411	1,120,411
	1,120,411	1,120,411

Cash flow interest rate risk

As cash is non-interest bearing, and loans and creditors are subject to only fixed interest rates, variations in commercial interest rates would have had no impact upon the Group's and Company's result for the year ended 31 December 2013.

Foreign exchange risk

All of the Group's and Company's monetary assets and liabilities are denominated in Pounds Sterling, the functional currency of the Group and each of its subsidiaries, other than US\$2,056,890 (£1,272,135) of non-current liabilities held by the Group in one of its subsidiaries. These exposures give rise to the net currency gains and losses recognised in profit or loss. A 10% fluctuation in the Pound Sterling rate compared to the US dollar would give rise to a £113,410 gain or loss in the profit or loss.

18 Financial instruments continued

The Group carried limited exposure to foreign exchange risk during the period to 31 December 2013. 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 does 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 2013, the Group raised £2,000,000 through the issue of ordinary shares at £0.238, £3,093 through the issue of ordinary shares at £0.01 and also issued £172,392 (2012 – £444,743) in interest bearing loan notes which were converted into ordinary shares upon AIM listing.

In managing its capital, comprising equity as described in the Statement of Changes in Equity, and loan notes, as disclosed in Note 12, the Group and Company's primary objective is to ensure its ability to provide a sufficient return for its equity shareholders, principally through 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 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

The Group and Company had no bank borrowings outstanding at 31 December 2013.

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:

	2013 £	2012 £
Authorised but not contracted	781,000	64,000
Contracts	690,000	132,000
	1,471,000	196,000

All capital commitments derive from the Group's participation in its joint venture operations and entities.

20 Related party transactions

Details of key management personnel remuneration are provided in note 4.

Acura Oil & Gas Limited, of which Michael Jordan is a director, disposed of 2,252,321 shares during the year (2012 – acquired 37,200 shares). Acura subscribed for £30,000 in loan notes during the year (2012 – £nil) and these plus accumulated interest were converted into 165,284 ordinary shares upon the Company's admission to AIM. This brought Acura's total holding to 6,775,742 (2012 – 8,862,779) shares being 11.38% of the total issued share capital.

Mark Routh acquired 84,166 shares for £842 and 378,261 shares at AIM admission for £90,000 during the year (2012 – 37,768 shares). He also subscribed for £40,000 in loan notes during the year (2012 – £200,000) and his total loan notes, plus accumulated interest, were converted into 1,373,246 ordinary shares upon the Company's admission to AIM. This brought his total holding to 4,121,189 (2012 – 2,285,516) shares being 6.92% of the total issued share capital.

Peter Young subscribed for 17,842 shares for £178 and 378,261 shares for £90,000 at AIM admission during the year (2012 – 8,000 shares). In addition he acquired 6,600,436 shares previously held by his wife, Fiona Young bringing his total holding to 13,544,820 (2012 – 6,548,281) being 22.75% of the total issued share capital.

Marie Louise Clayton acquired, through Clayton Consulting Partners, 90,600 shares for £906 during the year (2012 – 40,655) bringing her total holding, including shares held directly by her, to 2,550,773 (2012 – 2,460,173) being 4.28% of the total issued share capital.

Thomas Hardy acquired 11,187 shares during the year for £112 (2012 – 5,020 shares) bringing his total to 314,974 shares (2012 – 303,787 shares) being 0.53% of the total issued share capital.

21 Subsequent events

On 5 March 2014 the Company announced an agreement to acquire 100% of UK licence block 48/22a, which includes a gas discovery to be named Cronx, for £468,000 subject to the satisfaction of certain conditions. The acquisition must be completed not later than 31 December 2014.

On 5 June 2014, the Company announced a new funding arrangement with Darwin Strategic Limited ("Darwin") pursuant to which Darwin has subscribed for 5,625,000 ordinary shares of the Company at a price of 32 pence each. The aggregate issue price of £1,800,000 is to be satisfied by the issue of 1,800,000 redeemable subscription notes of £1 each by Darwin to the Company conditional upon the new shares being admitted to trading on AIM on or before 12th June 2014. Over the course of the 36 months following admission the Company will, at its sole discretion, instruct Darwin to sell the shares and redeem the subscription notes. Darwin has also made a loan of £517,500 available to the Company which is to be repaid from the sale of subscription shares over the next twelve months. The repayment amount will be £575,000 if paid within 6 months. An additional 5% will be payable on any outstanding balance if paid within 12 months. The Company has also agreed to issue 326,087 warrants over ordinary shares of Darwin at the exercise price of 46 pence expiring on 12 June 2017.

On 5 June 2014 the Company announced that Weatherford Technical Systems Ltd had agreed to extend the Maturity Date on its loan to the Company from March 2015 to September 2016.

Country of incorporation of parent company

United Kingdom

Legal form

Public limited company with share capital

Directors

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

Registered office

One America Square
Crosswall
London
EC3N 2SG

Company registered number

07434350

Auditors

BDO LLP
55 Baker Street
London
W1U 7EU



■ **Registered Address**

One America Square
Crosswall
London EC3N 2SG

■ **Office**

70 Clifton Street
London EC2A 4HB

■ **Contact**

+44 (0)20 3051 9632
www.independentoilandgas.com