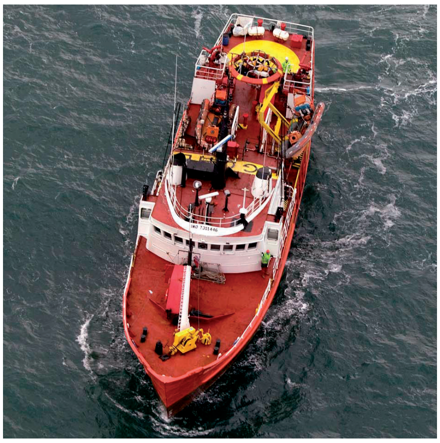
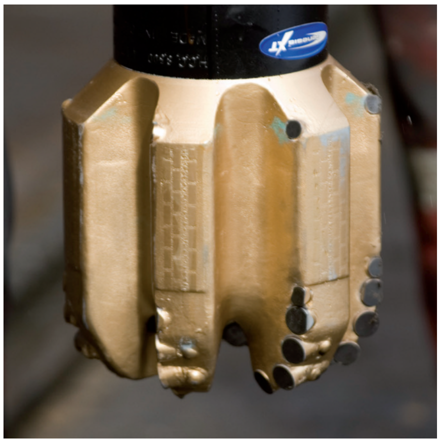
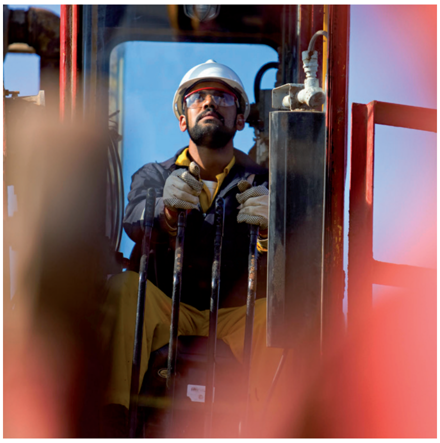
INDEPENDENT OIL & GAS PLC



ANNUAL REPORT & ACCOUNTS 2015

Independent Oil and Gas plc

Report and Audited Financial Statements

Year Ended

31 December 2015

Company Number 07434350

ANNUAL REPORT & ACCOUNTS 2015

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Annual Report 2015

2015 has been an important year of significant progress for Independent Oil and Gas Plc ("**IOG**" or the "**Company**"). In spite of the exceptionally challenging ongoing market conditions, the Company has successfully positioned itself for future growth and with the new financing arrangements has strengthened its position post period end. It is now well placed to pursue low risk, value accretive opportunities created in the current market environment. In addition to the Chief Executive's Review below, we provide a Strategic Report including our plans to pursue a Hub focussed strategy to create an established development and production focused operator delivering excellent value to shareholders over the coming years.

Chief Executive's Review

The challenges facing the North Sea have never been so widely publicised. However, IOG remains firmly committed to the UK Continental Shelf and continues to work hard to ensure our counter-cyclical approach creates value across the commodity cycle. Despite the 75% drop from peak to trough in oil prices since mid-2014, upstream oil and gas still remains a net margin-oriented business: it is possible to be as profitable with oil at current levels. That is why we remain extremely focused on cost management, lean operations and new models of collaboration. We are taking the lead in seeking progressive arrangements with the service sector in the UK to ensure robust project economics and overall competitiveness. The contractor community's support and cooperation with such initiatives has been very pleasing and bodes well for the future. Our fundamental purpose remains to ensure IOG is resilient to low commodity prices but also ideally positioned to benefit from any eventual upturn in prices across both the oil and gas markets.

Given the difficulty of funding and drilling North Sea wells amid this severe downturn, we are very encouraged by the UK Oil & Gas Authority's ("**OGA**") pragmatic and cooperative approach. Licence extensions we have received are vital to enable us to play our part in fulfilling the OGA's objectives of Maximising Economic Recovery, as set out in the Wood report, and ultimately in contributing to UK energy security.

In 2015 we made great strides towards drilling the planned appraisal well at Skipper which we firmly believe will prove up the commerciality of the field. Postponing the well, post period end, in January 2016 was a difficult but necessary decision to ensure we did not put the Company at undue risk in furthering our objectives. Despite this delay, the Skipper well preparation process in itself created considerable value for IOG, ensuring that we qualified as an exploration operator for the first time and establishing a number of constructive relationships with contractors for the next stage of development. With these in place, we remain ready to re-mobilise at relatively short notice when conditions allow.

The alignment of both financial backers and regulators, in addition to contractors, is of course critical to our ongoing progress. Securing the financial backing of London Oil & Gas Limited, part of the London Group, for an initial £3.55 million in December 2015 and in February 2016 a further £10 million financing transaction, was an important milestone in our development. London Oil & Gas Limited ("**LOG**") is a wholly owned subsidiary of London Group plc. The London Group is a private company whose focus is on the acquisition and development of real assets in the oil and gas and the hotel and leisure sectors. This financing covers IOG's licence fees and G&A for a minimum of 30 months, whilst also providing access to funds for portfolio enhancement. With this significant access to capital, I believe an exciting phase of growth for IOG has begun. In addition to delivering on existing plans, we can now capture attractive, value enhancing opportunities created by the oil and gas cycle.

It is important to be strategically aligned with your main investors and we are very pleased to report an excellent relationship with LOG. We are therefore excited about working with LOG to create value both organically and through acquisitions. In April 2016, upon closing the funding, we agreed to acquire the other 50% of the Blythe gas field in the Southern North Sea, a strategic cornerstone for our plans to create a gas hub in the area. We are also working on a range of potentially accretive asset opportunities. LOG's track record and wealth of experience will undoubtedly be of significant help in pursuing this new acquisitive strategy. I am delighted that Martin Ruscoe has brought his considerable capital markets experience to the IOG board as a non-executive director, and that Eric Bosshard has joined as a technical advisor.

In addition to developing our existing asset base, acquiring production in the North Sea is an important objective for the Company. This is both to kick start the production side of our lower risk development and production strategy and to generate cash flows to cover our activities in future. We will also consider compelling acquisition opportunities of production and development assets which have the potential to be value accretive, outside of the North Sea, in stable Western geographies. We have been assessing a number of interesting opportunities of various sizes and types and will conclude a transaction if we believe there is good value accretion for the Company and its shareholders.

In light of market conditions, and ahead of becoming an oil and gas producer, we have continued to manage corporate costs and cash extremely carefully. Throughout 2015, directors and management again sacrificed some or all of the salary or fees payable to them by the Company in return for options to acquire ordinary shares in the Company. By taking this approach, IOG has continued to benefit from a high calibre team with the wide-ranging experience required to take advantage of the opportunities in both our existing portfolio and the wider market. We will continue to manage our cash positon and capital structure proactively to balance short-term constraints with long-term value generation.

Post year end, Marie-Louise Clayton stepped down as a Non-Executive Director to concentrate on other activities. We thank Marie-Louise for her important contribution dating back to before IOG was created and wish her very well for the future.

We are very excited about the future potential of IOG and are confident we have the right team, financial partners and strategy, which is further outlined below, to create an established development and production focused operator. We look forward to continuing to work with our investors, counterparties, regulators and other stakeholders to maximise the value of the IOG portfolio.

Strategic Report

Highlights of 2015:

- **Skipper acquisition:** The Company completed the acquisition of the other 50% of the Skipper licence P1609 in block 9/21a, giving it 100% ownership of the licence. The transaction increased IOG's independently verified 2C resources by 13.1 MMBbls to 26.2 MMBbls. This is based on a recovery factor of 19% in the 2013 CPR. Management's base case view of the Skipper recovery factor is 25%, which equates to a total recovery of 34.1 MMBbls.
- **Skipper operatorship:** The UK OGA approved IOG as exploration operator of the Skipper licence. Qualifying as an exploration operator is an important step forward for IOG, not only with respect to drilling the Skipper appraisal well, but also in terms of opening up other asset opportunities and progressing on to production operatorship in due course.
- **Funding:** The Company secured loans from LOG and GE Oil & Gas UK Limited (GE) amounting to a total of £5.55 million during 2015 (further augmented during 2016 as detailed below). This comprised two loans from LOG, £2.75 million and £0.8 million respectively, and a £2.0 million loan from GE. The loans are intended to fund the appraisal well to be drilled on the Skipper discovery, as well as to provide funding for G&A and advancement of the Company's Southern North Sea asset portfolio. This backing reflects the confidence of our financial backers and corporate partners in the Company and its operational plans. IOG has also been able to defer a significant amount of cost for the Skipper well through a contractor finance structure designed to build long-term partnerships with service providers.
- **Advanced Skipper well planning:** IOG reached a very advanced stage of preparation for drilling the Skipper appraisal well, the primary objective of which is to retrieve good quality reservoir condition oil samples to optimise the field development. The well also has a secondary purpose of drilling two mapped reservoir structures beneath Skipper in the Lower Maureen and Dornoch formations. Although the well was postponed post period end from Q1 2016 due to difficult market conditions and very poor weather in the North Sea at that time, it continues to be a strategic priority and IOG remains ready to remobilise at the earliest feasible time.
- **Well management contract:** IOG signed a contract with AGR Well Management ("**AGR**") for the Skipper well, on which AGR will be the designated Well Operator. IOG and AGR have already jointly undertaken extensive well preparation work under this contract.
- **Skipper rig contract:** IOG signed a rig contract with Transocean for the Skipper well. This contract remains in place pending the re-scheduling of the well and we look forward to working with Transocean on this project. Establishing a good working relationship with Transocean was another important piece of progress for the Company.
- **Extension of Cronx, Truman & Harvey licences:** The OGA extended the Cronx licence P1737 by one year to 9th January 2017. IOG also agreed to extend the Sale and Purchase Agreement with Swift Exploration by nine months to 30th September 2016. IOG remains committed to completing the Cronx acquisition when circumstances allow, with a view to it forming part of the proposed Southern North Sea gas hub, alongside Blythe and other assets in the vicinity. This includes the Truman prospect and Harvey discovery in licence P2085 which was also extended by twelve months to 20th December 2016. These licence extensions are important steps to ensure that we can successfully develop our gas hub concept and we continue to look at ways to enhance and de-risk the asset base for this hub.
- **Award of Hambleton discovery:** Block 48/22c, which contains the Elgood discovery and was previously awarded to IOG in the 28th offshore licensing round, was increased by 48km² to the south and now contains the Hambleton discovery. IOG believes that the reprocessing of existing 3D seismic data could increase recoverable resources from 6 BCF up to 26 BCF, increasing the potential to tie the field into the proposed Southern North Sea gas hub.

Following year-end we have had several further significant developments in early 2016:

- **£10 million funding:** IOG secured a £10 million convertible loan facility from LOG, providing additional working capital and access to funding for future acquisitions. £3 million of the facility is to cover corporate G&A and licence fees up to July 2018, whilst £7 million is dedicated to fund acquisitions to add value to the IOG portfolio. This transaction takes the total funding from LOG up to £13.55 million.
- **Board changes:** On 9th February 2016, Marie-Louise Clayton chose to step down as a Non-Executive Director to concentrate on other activities and Martin Ruscoe was appointed as a Non-Executive Director. Martin Ruscoe is the appointed representative on IOG's Board pursuant to the loan agreements with LOG.
- **Skipper licence extension:** The OGA extended the Skipper Licence P1609 until 31st December 2016. This enables IOG to continue our work to re-schedule the Skipper appraisal well at the earliest economically feasible opportunity.
- **Blythe acquisition:** IOG signed a Sale and Purchase Agreement to acquire the other 50% of the Blythe discovery and assume operatorship. This acquisition is set to be a low-cost and strategically important addition to the portfolio, as it gives IOG full ownership and control over the assets designated for the Company's first development hub. It also doubles the Company's independently verified 2P reserves by 17.2 BCF to 34.3 BCF and enables IOG to focus on progressing the Field Development Plan as part of a Southern North Sea gas hub.

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 in December 2015 as part of the preparations to drill the Skipper appraisal well. This policy will guide the development of the IOG EMS and its operating practices going forward.

Environmental Management

As referenced above, an EMS has been developed to manage the environmental aspects of IOG's offshore operations in conjunction with AGR Well Management Ltd. as part of the preparations to drill the Skipper well in Block 9/21a. The scope of the EMS covers 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 in 2016.

A key part of the function of the EMS is to identify the significant environmental aspects of IOG's offshore operations and related legal and other requirements. The EMS focusses on the development of an Environmental Aspects Register and Register of Environmental Legislation. This allows IOG to focus on managing the key environmental aspects of its operations and help maintain legal compliance throughout. This also facilitates the setting of appropriate objectives and targets for the control of environmentally significant aspects.

EMS requirements will be implemented and monitored on a practical basis during the planning of drilling operations (and ongoing general office activities). 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 bridging documents have been designed to ensure the effective implementation of the IOG EMS and its standards throughout both the planning and execution of offshore operations. This focusses on key areas such as contractor appraisal, competency and training, interfacing of management systems and monitoring of operations offshore. This takes account of key ongoing communication from OGA/DECC, regarding operator and contractor EMS interfacing, circulated since the Deepwater Horizon incident.

Business Strategy

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 no longer targets 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. This strategy has previously been successfully deployed in the North Sea by CH4 Energy Limited (of which Mark Routh was the founder), among others and is fully endorsed by our main investor LOG.

The aim is to build upon 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 this strategy, given that there are over 400 undeveloped and underdeveloped assets in the UKCS.

The Hub Strategy targets strategic control over a number of dormant discoveries and exploration prospects that can be developed through common existing infrastructure, thereby generating significant economies. IOG is executing this strategy in order to create a Southern North Sea gas hub with the announced acquisition of the remainder of the Blythe licence, along with Operatorship, in addition to the pending Cronx acquisition and successful award of the Truman & Harvey licence. The Company has been granted exploration operator status by the OGA with respect to the Skipper licence and expects to complement this with production operatorship at its Southern North Sea gas hub. The Company has the requisite skills and competencies for production operatorship, which will give the Company control over field development plans and is therefore vital for executing the hub strategy.

Operatorship is also strategically important for other, related reasons. Third party consents to tie in additional discoveries are easier to facilitate for operators of owned infrastructure. 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.

Licences

Independent Oil and Gas plc ("**IOG**") through its wholly owned subsidiary IOG North Sea Ltd ("**IOGNS**") is currently a licensee on two Traditional Licences and two Promote Licences all in the North Sea;

- P1736 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;
- P2085 covering blocks 48/23c and 48/24b (Truman and Harvey); and

- P2260 covering block 48/22c (Elgood, Hambleton, Tetley and Rebellion).

At the time of writing, IOG is in the process of acquiring the remaining 50% of Licence P1736 (Blythe) not already owned by the Company from Alpha Petroleum Resources Ltd ("Alpha"). Upon completion of the acquisition and the approval from the OGA, IOG will become Operator and will own 100% of the licence. The licence has been extended to 31st December 2016.

During 2015, IOG acquired the remaining 50% of the Skipper licence P1609 not already owned by the Company, giving it full 100% ownership and was granted exploration operator status by the OGA. The licence has been extended to 31st December 2016.

IOG is the licence administrator on licence P2260 and has applied to operate licence P1737 covering block 48/22a (Cronx) to the west of the proposed Blythe field development. This application is subject to completion of the acquisition of the licence from Swift Exploration Ltd. The licence has been extended to 9th January 2017.

Statement of Reserves & Resources

The Group has 1P reserves of 2.1MMBoe, 2P reserves of 3.0MMBoe, 1C contingent resources of 25.6MMBoe and 2C contingent resources of 41.4MMBoe. Upon completion of the announced Blythe acquisition, the Group will have 1P reserves of 4.3MMBoe, 2P reserves of 6.1MMBoe, 1C contingent resources of 29.6MMBoe and 2C contingent resources of 47.1MMBoe. The Group's Proven, Probable and Possible reserves and resources for the Blythe and Skipper Hubs as at 31st December 2015 were as follows: -

Blythe Hub Reserves & Resources

Net Proven Reserves	1P (Bcf)	2P (Bcf)	3P (Bcf)	1P (MMBoe)	2P (MMBoe)	3P (MMBoe)
***Blythe**	11.2	17.2	23.7	2.1	3.0	4.5

Net Contingent Resources	1C (Bcf)	2C (Bcf)	3C (Bcf)	1C (MMBoe)	2C (MMBoe)	3C (MMBoe)
‡ Harvey	6	16	26	1.1	2.8	4.6
‡ Elgood	4	11	14	0.8	2.1	2.7
‡ Hambleton	2	6	26	0.4	1.1	5.0
***Cronx**	7.7	17.6	40.4	1.5	3.4	7.7
† Blythe - Carboniferous	21	30	90	4.0	5.7	17.2
Total Blythe Hub Discoveries	**52**	**98**	**220**	**9.8**	**18.2**	**41.7**

Net Prospective Resources	1C (Bcf)	2C (Bcf)	3C (Bcf)	1C (MMBoe)	2C (MMBoe)	3C (MMBoe)
‡ Truman	7	25	42	1.2	4.4	7.4
‡ Tetley	5	14	36	1.0	2.7	6.9
‡ Rebellion	2	6	18	0.4	1.1	3.4
Total Blythe Hub Prospects	**14**	**45**	**96**	**2.6**	**8.2**	**17.7**

Sources: *ERC Equipoise CPRs September 2013 & July 2012.
†Tullow 48/23a Relinquishment Report May 2009.
‡IOG internal view May 2016.
Note that the Cronx acquisition is subject to completion.

Note. The Blythe reserves are for the 100% of the licence. This is subject to completion of the acquisition of Alpha Petroleum's 50% of the licence which expected to complete.

Skipper Hub Resources

Contingent Resources	1C (MMBbls)	2C (MMBbls)	3C (MMBbls)
Skipper	**17.9**	**26.2**	**34.9**

Prospective Resources	1C (MMBbls)	2C (MMBbls)	3C (MMBbls)
Skipper - Maureen	**3.5**	**6.5**	**11.2**
Skipper - Dornoch	**2.3**	**4.0**	**6.1**
Total Skipper Hub	**23.7**	**36.7**	**52.2**

Source: AGR Tracs CPR September 2013.

Operational Update

Skipper

The Skipper oil discovery is in Block 9/21a in the Northern North Sea in licence P1609 which is now 100% owned by IOG. In 2015, IOG acquired 50% of the licence and operatorship in return for committing to fund and drill the commitment well. The acquisition therefore came with only a nominal upfront consideration, although the Company will have to make a payment of US$3 million upon the approval of the Skipper Field Development Plan ("**FDP**") and a payment of US$15 million shortly after first production from the field. We consider this to be an excellent deal for IOG and an important value driver for our portfolio, giving IOG operatorship and full control over the anticipated Skipper field development.

Skipper needs further appraisal by drilling a well to retrieve 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. (Source: AGR Tracs Competent Person's Report dated September 2013.) IOG believes the recovery factor assumed in the CPR is likely to be conservative and considers 34.1MMBbls recoverable resources to be an appropriate mid case estimate.

IOG undertook extensive preparation towards drilling the appraisal well on the Skipper licence in 2015, which was intended to be drilled in early 2016. The timing was postponed due to difficult market conditions and the likely impact on the Company's ability to refinance at the end of 2016, and very poor weather at the time. Our intention is to reschedule the drilling of the well at the earliest feasible date. In addition to retrieving the oil samples from the Skipper oil discovery, the appraisal well will also target two exploration prospects directly beneath Skipper, which may contain oil in place of 46 MMBbls. (Source: AGR Tracs Competent Person's Report dated September 2013.)

The appraisal well preparation process established a number of important operational relationships for the Company. A well management contract was signed with AGR Well Management who will be the designated Well Operator for the well under the updated regulatory guidelines. A rig contract was signed with Transocean and was put on hold pending the rescheduling of the well. A service contract was also signed with Baker Hughes for the provision of well services for the Skipper well. Numerous other contracts were negotiated into final form with the other necessary service and vessel providers which are also on hold until a new well date is confirmed.

As such, the Company remains very well positioned to re-mobilise for drilling the Skipper well in due course.

Blythe (50% Acquisition subject to completion)

The Blythe gas discovery straddles Blocks 48/22b and 48/23a in the Southern North Sea in licence P1736. In April 2016, IOG signed a Sale and Purchase Agreement with Alpha Petroleum Resources Ltd (the current operator) to acquire its 50% stake in the licence. The acquisition cost is £1.5 million payable at completion and US$5 million payable upon first gas. This is another excellent enhancement of value for the Company, with a doubling of independently verified 2P reserves by 17.2 BCF to 34.3 BCF or 6.1 MMBoe, at a cost equivalent to US$2.31/Boe. Completion of the acquisition is subject to regulatory approvals.

Upon assuming 100% of the licence and operatorship, IOG intends to move quickly towards submission of the FDP for Blythe in Q3-4 2016. The licence has been extended by the OGA to 31st December 2016. IOG would anticipate a further licence extension after FDP submission, although this cannot be taken for granted.

Blythe needs no further appraisal and has independently verified gross 2P reserves of 34.3 BCF or 6.1 MMBoe. (Source: ERC Equipoise Competent Person's Report dated September 2013.)

IOG is targeting first gas from the Blythe field in the second half of 2017 but the final development schedule has yet to be formalised. IOG's gas sales agreement signed with BP Gas Marketing Ltd in February 2013 remains in place.

Gas tested to surface from three separate intervals in the Carboniferous beneath the Blythe Leman gas discovery from one of the Blythe discovery wells, 48/23-3 drilled by Arco in 1987. The maximum rate achieved was 0.9 MMcfd from an unstimulated vertical test. (Source: End of well report 48/23-3 – November 1987.) This was deemed uncommercial at the time, before the advent of horizontal multi-fracture stimulated wells. Further technical work including seismic reprocessing and remapping needs to be completed to evaluate this potential resource to refine the gas-in-place estimates which are between 70 BCF and 310 BCF. (Source: Tullow Oil 48/23a Relinquishment Report – May 2009.)

Oil has flowed to surface from the naturally fractured Zechstein Carbonates in the Hauptdolomit formation above the Blythe Leman gas discovery from two wells. Well 48/22-1 drilled by Burmah in 1966 flowed 39° API oil at rates up to 2,000 barrels per day (Source: Composite well log 48/22-1 – October 1966) and well 48/23-3 drilled by Arco in 1987 at flowed 38° API oil at a maximum rate of 1,128 barrels of oil a day. (Source: End of well report 48/23-3 – November 1987.) The extent of the structure and potential oil resources in the Hauptdolomit remains unknown. Previous estimates considered that the mapped closure was probably small. Oil-in-place has been estimated between 2 MMBbls and 4 MMBbls. (Source: Tullow Oil 48/23a Relinquishment Report – May 2009.) Further evaluation and re-mapping is now warranted now that a development will proceed on the main Blythe gas discovery.

Cronx (Acquisition subject to completion)

The acquisition of the Cronx licence P1737 remains ongoing. The licence has been extended by the OGA to 9th January 2017, providing additional time for completion, which is subject to funding the commitment well on the licence. IOG submitted its application to operate this licence in March 2014. Approval is contingent upon demonstration of funding and a rig contract to drill the commitment well.

The Cronx gas discovery is 14km north-west of the Blythe field in which IOG will hold 100% once the Blythe acquisition is completed. Cronx was discovered in 2007 by well 48/22b-6 drilled by Perenco UK Ltd. Subject to the successful development of Blythe, the gas export of Cronx would be via the Blythe hub. 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 resources.

IOG would be committed to a firm well on completion of the Cronx acquisition. This is likely to be drilled in 2017 prior to a Field Development Plan submission and should confirm the recoverable resources. The well would be suspended as a future producer.

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

Elgood, Hambleton, Tetley & Rebellion

Licence P2260, which contains the Elgood Field, was awarded to IOG at 100% working interest. Elgood lies between the Blythe and Cronx fields and was discovered in 1991 by well 48/22-4, drilled by Enterprise Oil. IOG's estimate of the recoverable reserves in Elgood is 2.1 MMBoe. It is a good quality Rotliegend Leman sandstone reservoir that tested gas at rates in excess of 17 MMscfd. Gas was also tested from the Hauptdolomit interval 700 feet above the Leman interval but at low rates without stimulation. IOG was awarded the licence in the 28th UK Licensing Round with a two-year term from 1st January 2015. IOG is considering jointly developing the Elgood field with Cronx as part of a wider gas hub development which is conditional on the successful development of Blythe.

The Hambleton discovery, to the south of the same licence P2260, was drilled by Century Exploration in 2005 but also was not progressed to development. IOG estimates that Hambleton has recoverable resources of 6 BCF (1 MMBoe). IOG believes that the reprocessing of existing 3D seismic data could increase recoverable resources up to 26 BCF. There are prospective resources on licence P2260 estimated to be 5.3 MMBoe in the Tetley and Rebellion prospects.

Both Elgood and Cronx are covered in the recently commissioned reprocessing of existing 3D seismic data over IOG's Southern North Sea licence areas across 48/22a and 48/22c. This reprocessing is required to determine whether Elgood connects to Cronx, which could boost recoverable resources significantly. The new seismic interpretation will also determine the likely size of Hambleton.

Development of these assets, if technically and economically justified, would most likely be via tie-back to Blythe under a gas hub development. Further information and maps of Elgood, Hambleton, Tetley and Rebellion may be found on IOG's website.

Truman & Harvey

Licence P2085 in which lie the Truman prospect and Harvey discovery, was awarded to IOG at 100% working interest in December 2013. IOG estimates the mid case contingent resources at Truman to be 25 BCF and at Harvey to be 16 BCF.

IOG has acquired and is now reprocessing 250 sq. kms. of existing 3D seismic data, of which 85 sq. kms. fulfils the commitment on licence P2085. Further subsurface technical work will be carried out when the 3D seismic reprocessing project completes in 3Q 2016 to determine the range of gas in place and potential resources in these two structures. A drill or drop decision on this licence needs to be made by December 2016.

Development of these assets, if technically and economically justified, would most likely be via tie-back to Blythe under a gas hub development. Further information and maps of the Truman prospect and Harvey discovery may be found on IOG's website.

Asset Acquisitions

IOG continues to assess the potential for acquisition of producing assets to support the wider development and growth of the business. The Company is at the time of writing assessing a number of potential opportunities in the UK North Sea.

Finance Review

The Group made a profit for the year of £5.32 million during 2015 (2014 – loss of £12.14 million). The principal components were a partial reversal of impairment provisions made against oil and gas properties of £6.17 million (2014 - £8.25 million impairment) offset by administrative expenses of £0.51 million (2014 - £0.69 million) and share-based payments of £0.32 million (2014 - £1.34 million).

The impairment reversal relates to the Skipper field in which IOG increased its holding from 50% to 100% in December 2015. Following completion of this transaction a review was conducted of Skipper's carrying value and a full reversal of the 2014 £6.17 million Skipper impairment provision was determined. Administrative expenses comprised cash settled personnel costs of £0.32 million (2014 - £0.32 million) and corporate costs of £0.19 million (2014 - £0.37 million). Cash settled personnel costs have been maintained at a low level during 2015 in favour of equity-based incentives. Share based payments of £0.32 million showed a substantial reduction from the prior year level of £1.34 million as the awards related to the Company's 2013 AIM listing were fully charged in 2013 and 2014. Exploration costs written off of £0.01 million show a significant reduction from prior year costs of £0.64 million as 2014 pre-licence award costs were expensed whilst 2015 post-award costs are capitalised. A finance gain of £0.06 million (2014 - £1.14 million expense) included gains on derivative assets of £0.20 million (2014 – cost of £0.83 million) following the close-out of the Darwin finance facility, partially offset by interest charges and other expenses of £0.14 million (2014 - £0.31 million).

The increase in exploration and evaluation assets during 2015 from £7.51 million to £14.82 million largely reflects Skipper impairment reversal described above plus additional expenditures of £1.14 million (2014 - £0.51 million) mainly on Blythe development planning and preparations for Skipper drilling. Current assets include £1.35 million of costs on new borrowing facilities, principally the fair value of warrants issued, which will be charged in future periods spread over the lives of those facilities.

Cash capital expenditures in the year totalled £0.49 million (2014 - £0.52 million) mainly on the Group's Blythe and Skipper interests. This, plus cash used on operating activities of £0.49 million (2014 - £1.25 million), was largely financed through the issue of shares raising £0.34 million (2014 - £0.45 million) plus proceeds of £0.51 million (2014 - £0.08 million) from Darwin equity swap share sales net of Darwin loan repayments of £0.24 million (2014 – drawings of £0.52 million) with the balance of funds consumed during 2015 covered by a reduction in cash balances from £0.40 million at end 2014 to £0.02 million at 31st December 2015.

The Directors will not be recommending payment of a dividend.

Darwin Loan

During 2015, total repayments of £0.24 million were made against the Darwin loan and on 14th October 2015 the outstanding balance of £0.25 million was satisfied through the issue of 6,507,399 ordinary shares in the Company. The Darwin facility is fully repaid.

London Oil and Gas Limited and GE Oil and Gas UK Limited Loans

On the 4th December 2015 the Company secured agreement for a loan of £2.75 million from London Oil and Gas Limited ("LOG") in parallel with a £2 million loan from GE Oil & Gas UK Limited ("GE"). The loans are secured over IOG's assets and are due to be repaid at end of 2016 with deferred interest of LIBOR + 9% per annum. The loans are part of the Skipper appraisal well funding. GE also agreed to provide wellheads to IOG for the Skipper appraisal well on a fully deferred basis, to be paid for at the same time as repaying the loans at the end of 2016. In support of these loans IOG agreed to issue 5,777,310 warrants over IOG ordinary shares to each of LOG and GE. A strike price of 11.9p must be paid to IOG to exercise the warrants which may be exercised up until the end of December 2016.

On the 11th December 2015 an additional loan of £800,000 was provided by LOG. This was on similar terms, but with the issue of 7,500,000 warrants at a strike price of 8p per share. This loan is to provide sufficient contingency for the Skipper well to be drilled and for general corporate purposes.

Table 1: Summary Loans with London Oil and Gas Limited

Amount (£ million)	Available until	Use	Interest rate	Warrants / Convertible details	Repayment by
£2.75	30/12/2016	Skipper appraisal	Libor + 9%.	5,777,310 warrants @ 11.9p	30/12/2016
£0.80	30/12/2016	G&A	Libor + 9%.	7,500,000 warrants @ 8p	30/12/2016
£10.00	31/07/2018	Corporate, acquisitions	Libor + 9%.	8p conversion price	3 years from drawing
£13.55					

Note on drawing conditions: All Conditions Precedent to the LOG loans have been met and can be drawn with agreement from LOG. £100k per month is committed to cover G&A to June 2018.

Shortly after year end the Skipper well was postponed. The loans are expected to be made available for drawing once the revised Skipper well timings are confirmed. It is anticipated that the repayment dates and warrant exercise dates will be adjusted once the Skipper well timings are confirmed. As soon as the Skipper well timing is confirmed, it is the intention to execute GE loan agreement.

Also after year end LOG agreed an additional £10 million convertible loan to IOG. £3 million of the loan is set aside to cover IOG's corporate spend over a 30-month period from February 2016. In common with the other loans, the remaining £7 million requires LOG approval for drawdown. The aim of the loan is to support acquisitions in the low price environment but also to support organic growth. Post year end IOG announced the proposed acquisition of 50% of the Blythe licence which will be funded from the LOG facilities. Each loan tranche is repayable 36 months after drawing and LOG has the right to extend this by a further 12 months. Any outstanding loans including accrued interest can be converted into new ordinary IOG shares at a price of 8p per share at LOG's election prior to repayment. The loan has a coupon of LIBOR + 9% which is deferred until maturity. LOG also has the right to convert any undrawn amounts into shares after 30 months.

Despite difficult trading conditions which led to earlier potential funding solutions not being concluded, IOG is now in a well-funded position, with a fully aligned investor, where corporate spend is covered to mid-2018 and, subject to drawdown approval, IOG is funded for i) the Skipper appraisal well, ii) the Blythe licence acquisition and progression to Field Development Plan submission, iii) investments to add value to the current portfolio such as seismic reprocessing in the Southern North Sea and iv) additional acquisitions. Through the relationships with LOG, GE and others, IOG is now on a sound financial footing and is well placed to secure the additional funding required to develop its licences.

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 though 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 and secure finance facilities sufficient 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
Company may not be able to raise funds to exploit its assets or continue as a going concern	• Management maintains regular dialogue with a variety of potential funding partners.

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

Corporate Hedging Strategy and Implementation

The primary objective of the Company's hedging policy is to protect projected future cash flows, generated from operations, against unforeseen changes in short and medium term market conditions.

No hedging instruments were utilised during 2015 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 17 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.

Funding and Liquidity

As at 24th May 2016 the Group had cash resources of £65,000. In addition, the Company has arranged loan finance totalling £15.55 million which is expected to be available to fund the planned Skipper appraisal well, acquisitions including that of the remaining 50% of Blythe and general corporate and administrative expenditures. This funding is also expected to be sufficient to take the Company's Blythe gas field through to the submission of a field development plan, at which point the Company intends to arrange finance for the full development project.

Since the start of 2016, the Company has demonstrated a capability to reach effective arrangements with contractors through an agreement with GE Oil and Gas Limited to defer payment of £0.61 million of Skipper appraisal expenditures until end 2016 and through the satisfaction of £0.64 million due to AGR Well Management Limited through the issue of shares in the Company. Management will continue to seek mutually beneficial arrangements of this type so as to manage its cash resources efficiently.

On this basis, management considers that the Company has sufficient financial resources to meet its obligations and contracted commitments over at least the next twelve months.

On behalf of the Board

Mark Routh
Director
26 May 2016

Board of Directors

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.

Mark Routh - Chief Executive Officer and Acting Chairman

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 (Resigned 9th February 2016)

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 plc and QinetiQ plc, and a Non-Executive Director of 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.

Martin Ruscoe – Non-executive Director

Mr Ruscoe has over 40 years' experience in the Financial Services Industry. Martin initially worked for a top 20 life office for 25 years, the last 9 years as Chief Investment Officer being involved in all forms of investment, taxation and new product development within the company. Following a takeover he left to move to the broking side of the investment community working for Swiss Bank, Citicorp and Smith New Court. Mr Ruscoe then spent 12 years with Charterhouse Securities who were voted number one in the small cap market and the spent 6 years with Seymour Pierce, at the time the largest AIM Broker in London. He has vast experience and has overseen in excess of 200 institutional fund raisings including new listings, placings and rights issues. He currently holds the following Non-Executive Director positions: Surrey Save Credit Union, London Oil & Gas, Modular Airspace Systems, London Group PLC and Independent Oil and Gas. Following the investments by London Oil & Gas Ltd ("**LOG**") into IOG, Mr Ruscoe is the appointed IOG Board representative pursuant to the execution of the LOG loan agreements.

Remuneration Policy

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.

Salary Sacrifice Arrangements

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.

During the year, as a result of cash constraints on the Company and a desire to ensure that these limited resources were focussed on operations, the service agreements of Key Management were varied such that cash payments were reduced and the difference settled by options granted with a strike price of 1p. The number of options granted is determined by the Company's volume weighted average share price for each six-month period of salary or fee sacrifice. Further details can be found in Note 4 to the financial statements.

Corporate Governance Statement

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:

- quarterly 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; and
- 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 three 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. Martin Ruscoe is the Board appointed representative from London Oi & Gas Ltd.

Audit Committee

The Audit Committee comprises, Paul Murray (Chairman), Mike Jordan and Martin Ruscoe. 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 Mike Jordan (Chairman), Paul Murray and Martin Ruscoe. 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.

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
26 May 2016

Glossary of Key Technical Terms

"1C"	the minimum estimate of Contingent Resources;
"2C"	the Best Estimate of Contingent Resources;
"3C"	the maximum estimate of Contingent Resources;
"3D seismic"	geophysical data that depicts the subsurface strata in three dimensions. 3D seismic typically provides a more detailed and accurate interpretation of the subsurface strata than 2D seismic;
"1P"	the Proved Reserves;
"2P"	the sum of Proved Reserves plus Probable Reserves;
"3P"	the sum of Proved Reserves plus Probable plus Possible Reserves;
"API"	a standard measure of oil density, as defined by the American Petroleum Institute;
"appraisal well"	a well drilled as part of an appraisal drilling programme which is carried out to determine the physical extent, reserves and likely production rate of a field;
"barrels" or "bbls" or "Bbls"	a unit of volume measurement used for petroleum and its products (for a typical crude oil 7.3 barrels ≈ 1 tonne: 6.29 barrels ≈ 1 cubic metre);
"bcf" or "Bcf" or "Bscf"	billion (10^9) standard cubic feet; 1 bcf is approximately equal to 172,414 Boe or 23,618 tonnes of oil equivalent, using a factor of 5.8 Bcf per MMBbls;
"Best Estimate"	the middle value in a range of estimates considered to be the most likely. If based on a statistical distribution, can be the mean, median or mode depending on usage;
"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 e.g. Block 14/13 is the 13th block in Quadrant 14;
"Boe" or "BOE"	barrels of oil equivalent. One barrel of oil is approximately the energy equivalent of 5,800 cubic feet of natural gas;
"Brent Crude"	an international benchmark comprising a mix of crude oil from 15 different oil fields in the North Sea;
"Carboniferous"	a geological period and system that extends from the end of the Devonian Period, about 359 million years ago, to the beginning of the Permian Period, about 299 million years ago;
"Contingent Resources"	those quantities of petroleum estimated, as of a given date, 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;
"Cretaceous"	geological strata formed during the period 140 million to 65 million years before the present;
"discovery"	an exploration well which has encountered hydrocarbons for the first time in a structure;
"farm-in"	when a company acquires an interest in a block by taking over all or part of the financial commitment for drilling an exploration well;
"farm-out"	to assign an interest in a licence to another party;
"FDP"	field development plan;
"field"	an area consisting of either a single reservoir or multiple reservoirs, all grouped on or related to the same individual geological structural feature and/or stratigraphic condition;
"formation"	a layer or unit of rock. A productive formation in the context of reservoir rock;
"ft"	foot/feet;
"G&A"	general and administrative;
"GIIP"	gas initially in place;
"gross resources"	the total estimated petroleum that is potentially recoverable from a field or prospect;
"hydrocarbon"	a compound containing only the elements hydrogen and carbon. May exist as a solid, a liquid or a gas. The term is mainly used in a catch-all sense for oil, gas and condensate;
"km"	kilometre;
"km^2" or "sq, km"	square kilometres;
"licence"	an exclusive right to search for or to develop and produce hydrocarbons within a specific area. Usually granted by the State authorities and may be time limited;
"Mcf" or "mcf"	thousand standard cubic feet;
"Mcfd" or "mcfd"	thousand cubic feet per day;
"MMBbl"	millions (10^6) of barrels of oil;
"MMBO"	million (10^6) barrels of oil;
"MMBOE" or "MMBoe"	million (10^6) barrels of oil equivalent;
"MMcf"	million (10^6) cubic feet;

“MMcfd”	million (10^6) cubic feet per day;
“MMscf”	million (10^6) standard cubic feet;
“MMscfd”	million (10^6) standard cubic feet per day;
“oil”	mixture of liquid hydrocarbons of different molecular weights;
“oil equivalent”	international standard for comparing the thermal energy of different fuels;
“operator”	the company that has legal authority to drill wells and undertake production of hydrocarbons found. The operator is often part of a consortium and acts on behalf of such consortium;
“P90”	in the probabilistic estimation of hydrocarbon reserves, a term referring to the quantity of recoverable hydrocarbons from a reservoir having a 90 per cent. probability of being produced. Often also referred to as Proved or 1P;
“P50”	in the probabilistic estimation of hydrocarbon reserves, a term referring to the quantity of recoverable hydrocarbons from a reservoir having a 50 per cent. probability of being produced. Often also referred to as “Proved plus Probable” or 2P;
“P10”	in the probabilistic estimation of hydrocarbon reserves, a term referring to the quantity of recoverable hydrocarbons from a reservoir having a 10 per cent. probability of being produced. Often also referred to as “Proved plus Probable plus Possible” or 3P;
“petroleum”	a generic name for hydrocarbons, including crude oil, natural gas liquids, natural gas and their products;
“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;
“Promote Licence”	a specific type of licence awarded by DECC whereby licence holders are given two years after an award, with low rental payments and obligations, in order to attract the technical, environmental and financial capacity to complete an agreed work programme. The licence will expire after two years if the licensee has not made a firm commitment to DECC to complete the work programme;
“prospect”	a project associated with a potential accumulation of oil or natural gas that is sufficiently well defined to represent a viable drilling target;
“prospective resources”	those quantities of petroleum estimated, as of a given date, to be potentially recoverable from undiscovered accumulations by application of future development projects;
“proven 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;
“quadrant”	an areal subdivision of the UKCS of 1 degree of longitude by 1 degree of latitude - typically around 6,600km2. On the UKCS each quadrant is further subdivided into 30 blocks;
“recovery factor”	the percentage of the hydrocarbon in place that can be produced;
“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;
“reservoir”	a subsurface body of rock having sufficient porosity and permeability to store and transmit fluids. A reservoir is a critical component of a complete petroleum system;
“resources”	deposits of naturally occurring hydrocarbons which, if recoverable, include those volumes of hydrocarbons either yet to be found (prospective) or if found the development of which depends upon a number of factors (technical, legal and/or commercial) being resolved (contingent);
“Rotliegendes” or “Rotliegend”	a lithostratigraphic geological unit of early Permian age (beneath the Zechstein and above the Carboniferous) that is found in the subsurface of large areas in western and central Europe;
“STOOIP” or “STOIIP”	stock tank oil originally in place or stock tank oil initially in place;
“scf”	standard cubic feet;
“seismic survey”	a method by which an image of the earth’s subsurface is created through the generation of shockwaves and analysis of their reflection from rock strata. Such surveys can be done in two or three dimensional form;
“UKCS”	United Kingdom Continental Shelf;

Report of The Directors

The directors present their report and audited financial statements of Independent Oil and Gas plc ("the Company") and its subsidiaries ("the Group") for the year ended 31 December 2015. All amounts are shown in Pounds Sterling, unless otherwise stated.

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

Information about the principal activities of the business, statement of reserves and resources, operational and financial updates, the principal risks and uncertainties faced by the business, the Group's KPIs and the Directors' going concern assessment has been provided as part of the Strategic Report included on page 3.

Dividend

The Directors do not recommend the payment of a dividend (2014: £nil).

Future Developments

Following the arrangement of debt funding in late 2015 and early 2016, 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. Full details are included in the Strategic Report on page 3.

Directors and their Interests

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

Mark Routh
Peter Young
Marie-Louise Clayton (resigned 9 February 2016)
Michael Jordan
Paul Murray
Martin Ruscoe (appointed 9 February 2016)

Directors' biographies and committee memberships are set out on page 12.

The Group has provided the directors with third party indemnity insurance of £11,000 (2014 - £13,000).

Directors who held office at the end of the financial year had the following interests in shares of the Company:

Ordinary shares of 1p each	**At 31 December 2015**	**At 31 December 2014**
Mark Routh	4,303,010	4,303,010
Peter Young	13,831,725	13,726,638
Marie-Louise Clayton	2,732,591	2,732,591
Michael Jordan	6,957,560	6,957,560
Paul Murray	951,420	951,420

The total holding of Marie-Louise Clayton includes 313,073 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.

Risk Management

Information on the financial and operational risks faced by the Group and the risk management objectives and policies is included in the Strategic Report on page 3.

Financial Instruments

Information on financial instruments can be found in note 17 to the financial statements.

Related Parties

Information on related party transactions can be found in note 19 to the financial statements.

Subsequent Events

Information on subsequent events can be found in note 20 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 ("AIM").

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 Group and Company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group and Company's transactions and disclose with reasonable accuracy at any time the financial position of the 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 Group and 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.

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

On behalf of the Board

Peter Young
Director

26 May 2016

Independent Auditor's Report

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 2015 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 2015 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the Parent Company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion the information given in the 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

26 May 2016

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

Consolidated Statement of Comprehensive Income

	Note	2015 £000	2014 £000
Other administrative expense	3	(512)	(693)
Impairment reversal/(impairment) of oil and gas properties	8	6,169	(8,254)
Exploration costs written off	3	(10)	(641)
Share-based payments	14	(321)	(1,343)
Foreign exchange loss	3	(65)	(77)
Total administrative and other gains/(expenses)		5,261	(11,008)
Operating profit/(loss)	3	**5,261**	**(11,008)**
Finance gain/(expense)	5	61	(1,137)
Profit/(loss) for the year before taxation		**5,322**	**(12,145)**
Taxation	6	**-**	-
Total comprehensive profit/(loss) for the year attributable to equity holders of the parent	7	**5,322**	**(12,145)**
Profit/(loss) for the year per ordinary share – basic	7	**7.4p**	**(19.2)p**
Profit/(loss) for the year per ordinary share – diluted	7	**6.5p**	**(19.2)p**

The profit for the year (2014: loss for the year) arose from continuing operations.

The notes on pages 27 to 49 form part of these financial statements.

	Share capital	Share premium	Share-based payment reserve	Retained deficit	Total equity
Group	**£000**	**£000**	**£000**	**£000**	**£000**
At 1 January 2014	595	15,425	401	(1,484)	14,937
Share capital issued	97	1,759	-	-	1,856
Share issue costs	-	(11)	-	-	(11)
Issue of warrants	-	(10)	10	-	-
Issue of share options	-	-	1,343	-	1,343
Loss for the year	-	-	-	(12,145)	(12,145)
At 31 December 2014	**692**	**17,163**	**1,754**	**(13,629)**	**5,980**
Share capital issued	30	315	-	-	345
Issue costs		(10)	-	-	(10)
Settlement of loan via issue of shares	65	181	-	-	246
Issue of warrants	-	-	1,272	-	1,272
Issue of share options	-	-	321	-	321
Profit for the year	-	-	-	5,322	5,322
At 31 December 2015	**787**	**17,649**	**3,347**	**(8,307)**	**13,476**
Company					
At 1 January 2014	595	15,425	401	(559)	15,862
Share capital issued	97	1,759	-	-	1,856
Share issue costs	-	(11)	-	-	(11)
Issue of warrants	-	(10)	10	-	-
Issue of share options	-	-	1,343		1,343
Loss for the year	-	-	-	(13,070)	(13,070)
At 31 December 2014	**692**	**17,163**	**1,754**	**(13,629)**	**5,980**
Share capital issued	30	315	-	-	345
Issue costs	-	(10)	-	-	(10)
Settlement of loan via issue of shares	65	181	-	-	246
Issue of warrants	-	-	1,272	-	1,272
Issue of share options	-	-	321	-	321
Profit for the year	-	-	-	5,667	5,667
At 31 December 2015	**787**	**17,649**	**3,347**	**(7,962)**	**13,821**

Share capital - Amounts subscribed for share capital at nominal value.
Share premium - Amounts received on the issue of shares in excess of the nominal value of the shares.
Share-based payment reserve - Amounts reflecting fair value of options and warrants issued.
Retained deficit - Cumulative net losses recognised in the Statement of Comprehensive Income net of amounts recognised directly in equity.

The notes on pages 27 to 49 form part of these financial statements.

Consolidated Statement of Financial Position

Company Number: 07434350

	Note	2015 £000	2014 £000
Non-current assets			
Exploration and evaluation assets	8	**14,818**	**7,513**
Current assets			
Other receivables and prepayments	11	1,493	3
Derivative financial asset	11	-	307
Cash and cash equivalents	15	23	398
		1,516	**708**
Total assets		**16,334**	**8,221**
Current liabilities			
Loans	12	-	(461)
Trade and other payables	12	(2,565)	(194)
		(2,565)	**(655)**
Non-current liabilities			
Trade and other payables	13	**(293)**	**(1,586)**
Total liabilities		**(2,858)**	**(2,241)**
NET ASSETS		**13,476**	**5,980**
Capital and reserves			
Called-up equity share capital	14	787	692
Share premium account	14	17,649	17,163
Share-based payment reserve	14	3,347	1,754
Retained deficit		(8,307)	(13,629)
		13,476	**5,980**

The financial statements were approved and authorised for issue by the Board of Directors on 26 May 2016 and were signed on its behalf by:

Peter Young
Director

The notes on pages 27 to 49 form part of these financial statements.

Company Statement of Financial Position

Company Number: 07434350	**Note**	**2015 £000**	**2014 £000**
Non-current assets			
Investments	9	10,507	4,338
Amounts due from subsidiaries	9	2,908	1,597
		13,415	**5,935**
Current assets			
Other receivables and prepayments	11	1,493	3
Derivative financial asset	11	-	307
Cash and cash equivalents	15	23	398
		1,516	**708**
Total assets		**14,931**	**6,643**
Current liabilities			
Loans	12	-	(461)
Trade and other payables	12	(1,086)	(178)
		(1,086)	**(639)**
Non-current liabilities			
Trade and other payables	13	**(24)**	**(24)**
Total liabilities		**(1,110)**	**(663)**
NET ASSETS		**13,821**	**5,980**
Capital and reserves			
Called-up equity share capital	14	787	692
Share premium account	14	17,649	17,163
Share-based payment reserve	14	3,347	1,754
Retained deficit		(7,962)	(13,629)
		13,821	**5,980**

The financial statements were approved and authorised for issue by the Board of Directors on 26 May 2016 and were signed on its behalf by:

Peter Young
Director

The notes on pages 27 to 49 form part of these financial statements.

Consolidated Cash Flow Statement

	Note	2015 £000	2014 £000
Profit/(loss) for the year		5,322	(12,145)
Adjustments for:			
(Impairment reversal)/impairment of oil and gas properties		(6,169)	8,254
Finance cost of derivative asset		-	61
Interest on loans		123	100
Share-based payments		321	1,343
Foreign exchange loss		65	77
(Gain on)/impairment of derivative financial assets		(204)	831
(Increase)/decrease in trade and other receivables		(136)	114
Increase in trade and other payables		187	118
Net cash used in operating activities		**(491)**	**(1,247)**
Cash flows from investing activities			
Purchase of intangible non-current assets		(494)	(520)
Net cash used in investing activities		**(494)**	**(520)**
Cash flows from financing activities			
Proceeds from issue of ordinary shares		345	450
Costs of share issue		(10)	-
Loans (repaid)/received		(237)	517
Amounts received for derivative financial instruments		512	78
Net cash generated from financing activities		**610**	**1,045**
Decrease in cash and cash equivalents in the year		(375)	(722)
Cash and cash equivalents at start of year		398	1,120
Cash and cash equivalents at end of year	15	**23**	**398**

The notes on pages 27 to 49 form part of these financial statements.

Company Cash Flow Statement

	Note	2015 £000	2014 £000
Profit/(loss) for the year		5,667	(13,070)
Adjustments for:			
(Impairment reversal)/impairment of investments in and amounts due from subsidiaries		(6,169)	10,124
Recharges to subsidiary for management and technical services		(200)	(296)
Finance cost of derivative asset		-	61
Interest on loans		22	62
Share-based payments		321	1,343
(Gain on)/impairment of derivative financial instruments		(204)	831
(Increase)/decrease in trade and other receivables		(136)	114
Increase in trade and other payables		184	110
Net cash used in operating activities		**(515)**	**(721)**
Cash flows from investing activities			
Amounts invested in subsidiaries		(470)	(1,046)
Net cash used in investing activities		**(470)**	**(1,046)**
Cash flows from financing activities			
Proceeds from issue of ordinary shares		345	450
Costs of share issue		(10)	-
Loans (repaid)/received		(237)	517
Amounts received for derivative financial instruments		512	78
Net cash generated from financing activities		**610**	**1,045**
Decrease in cash and cash equivalents in the year		(375)	(722)
Cash and cash equivalents at start of year		398	1,120
Cash and cash equivalents at end of year	15	**23**	**398**

The notes on pages 27 to 49 form part of these financial statements.

Notes Forming Part of the Financial Statements

1 Accounting policies

Basis of preparation

Independent Oil and Gas plc is a public limited company incorporated and domiciled in England and Wales. The Group's and Company's financial statements for the year ended 31 December 2015 were authorised for issue by the Board of Directors on 26 May 2016 and the balance sheets were signed on the Board's behalf by the CFO Peter Young.

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. The consolidated financial statements are presented in Pounds Sterling, which is also the Group's functional currency. Amounts are rounded to the nearest thousand, 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.

The preparation of financial statements in compliance with adopted IFRS requires the use of certain critical accounting estimates. It also requires Group management to exercise judgment in applying the Group's accounting policies. The areas where significant judgments and estimates have been made in preparing the financial statements and their effect are disclosed in note 1 on page 33.

The consolidated financial statements have been prepared on a historical cost basis, except for derivative financial instruments at fair value as disclosed in note 1 on page 33.

Financial resources and liquidity

As at 24 May 2016 the Group had cash resources of £65,000. In addition, the Company has arranged loan finance totalling £15.55 million which is available to fund the planned Skipper appraisal well, acquisitions including that of the remaining 50% of Blythe and general corporate and administrative expenditures. This funding is also expected to be sufficient to take the Company's Blythe gas field through to submission of a field development plan, at which point the Company intends to arrange finance for the full development project.

Since the start of 2016, the Company has demonstrated a capability to reach effective arrangements with contractors though an agreement with GE Oil and Gas Limited to defer payment of £0.61 million of Skipper appraisal expenditures until end 2016 and through the satisfaction of £0.64 million due to AGR Well Management Limited through the issue of shares in the Company. Management will continue to seek mutually beneficial arrangements of this type so as to manage its cash resources efficiently.

On this basis, management considers that the Company has sufficient financial resources to meet its obligations and contractual commitments over at least the next twelve months.

1 Accounting policies continued

New Accounting Standards

(i) New and amended standards adopted by the Group:

The accounting policies adopted are consistent with those of the previous financial year. There are no new or amended financial standards or interpretations adopted during the year that have a significant impact upon the financial statements.

(ii) The following standards, amendments and interpretations, which are effective for reporting periods beginning after the date of these financial statements, have not been adopted early:

Standard	Description	Effective date
IAS 9	Financial Instruments	1 January 2018
IFRS 15	Revenues from Contract with Customers	1 January 2018
IFRS 16	Leases	1 January 2019
Amendments to IAS 16 and 38	Clarification of Accountable Methods of Depreciation and Amortisation	1 January 2016
Amendments to IFRS 11	Accounting for Acquisition of Interests in Joint Operations	1 January 2016

The application of the above standards in future financial statements is not expected to have a material impact on the financial statements.

Basis of consolidation

Where the Company has control over an investee, it is classified as a subsidiary. The Company controls an investee if all three of the following elements are present: power over the investee, exposure to variable returns from the investee, and the ability of the investor to use its power to affect those variable returns. Control is reassessed whenever facts and circumstances indicate that there may be a change in any of these elements of control. De-facto control exists in situations where the Company has the practical ability to direct the relevant activities of the investee without holding the majority of the voting rights. In determining whether de-facto control exists the Company considers all relevant facts and circumstances, including:

- The size of the Company’s voting rights relative to both the size and dispersion of other parties who hold voting rights
- Substantive potential voting rights held by the Company and by other parties
- Other contractual arrangements
- Historic patterns in voting attendance.

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.

1 Accounting policies continued

Joint arrangements

Joint arrangements are arrangements in which the Group shares joint control with one or more parties. Joint control is the contractually agreed sharing of control of an arrangement, and exists only when decisions about the activities that significantly affect the arrangement's returns require the unanimous consent of the parties sharing control.

Joint arrangements are classified as either joint operations or joint ventures based on the rights and obligations of the parties to the arrangement. In joint operations, the parties have rights to the assets and obligations for the liabilities relating to the arrangement, whereas in joint ventures, the parties have rights to the net assets of the arrangement.

Joint arrangements that are not structured through a separate vehicle are always joint operations. Joint arrangements that are structured through a separate vehicle may be either joint operations or joint ventures depending on the substance of the arrangement. In these cases, consideration is given to the legal form of the separate vehicle, the terms of the contractual arrangement and, when relevant, other facts and circumstances. When the activities of an arrangement are primarily designed for the provision of output to the parties, and the parties are substantially the only source of cash flows contributing to the continuity of the operations of the arrangement, this indicates the parties to the arrangements have rights to the assets and obligations for the liabilities.

The Group accounts for all its joint arrangements as joint operations by recognising the assets, liabilities, and expenses for which it has rights or obligations, including its share of such items held or incurred jointly.

Oil and gas exploration, development and producing assets

The Group adopts the following accounting policies for oil and gas asset expenditure, based on the stage of development of the assets:

1) Pre-licensing
Expenditure incurred prior to the acquisition of a licence interest is expensed to the statement of comprehensive income as exploration costs written off.

2) Exploration and evaluation ("E&E")
The Group applies the full cost method of accounting for E&E costs, having regard to the requirements of IFRS 6 'Exploration for and Evaluation of Mineral Resources'. Under the full cost method of accounting, costs of exploring and evaluating oil and gas properties are accumulated and capitalised by reference to appropriate cash generating units ("CGUs"). Such CGU's are based on geographic areas such as a licence area or a basin and are not larger than an operating segment - as defined by IFRS 8 'Operating segments'. The Group has one identified CGU, being the North Sea.

E&E costs may include costs of licence acquisition, technical services and studies, geological and geophysical data acquisition, exploration drilling and testing. These costs are initially capitalised within 'Intangible assets'.

Intangible E&E assets are not depreciated and are carried forward until the existence (or otherwise) of commercial reserves has been determined. The Group's definition of commercial reserves for such purpose is proven and probable reserves on an entitlement basis.

If commercial reserves are discovered, the related E&E assets are assessed for impairment, and any impairment loss is recognised in the statement of comprehensive income. The carrying value, after any impairment loss, of the relevant E&E assets is then reclassified to development and production assets within property, plant and equipment and is amortised on a unit of production basis over the life of the commercial reserves of the CGU to which they relate.

1 Accounting policies continued

Oil and gas exploration, development and producing assets continued

Intangible E&E assets that relate to E&E activities that are not yet determined to have resulted in the discovery of commercial reserves remain capitalised as intangible E&E assets at cost, subject to impairment assessments as set out below.

E&E assets are assessed for impairment when facts and circumstances suggest that the carrying value of the E&E CGU to which they relate may exceed its future recoverable amount. Where the E&E assets concerned fall within the scope of an established CGU, the E&E assets are tested for impairment together with all development and production assets associated with that CGU, as a single cash generating unit. The aggregate carrying value is compared against the expected recoverable amount of the CGU. The recoverable amount is the higher of value in use and the fair value less costs to sell. Where the E&E assets to be tested fall outside the scope of any established CGU, there will generally be no commercial reserves and the E&E assets concerned will generally be written off in full. Any impairment loss is recognised in the statement of comprehensive income.

3) 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 statement of comprehensive income on a unit of production basis.

4) Production
All costs of producing, transporting and processing oil and gas reserves are expensed in the statement of comprehensive income 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 statement of comprehensive income. 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 statement of comprehensive income.

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

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.

Derivative financial instruments
Derivative financial instruments are held at fair value with any changes in fair value arising charged to profit or loss.

1 Accounting policies continued

Financial instruments continued

(ii) Financial liabilities

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.

Loans and borrowings
Loans and borrowings are initially recognised at fair value; less any issue costs. They are subsequently held at amortised cost using the effective interest method.

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 is 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.

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 statement of comprehensive income, together with an increase in equity reserves, over the relevant vesting period. Fair values are calculated using the Black Scholes model and adjusted to reflect expected levels of vesting and performance conditions. No expense is recognised for options that do not ultimately vest except where vesting is only conditional upon a market condition.

Where share options are used to settle deferred salary amounts, the liability is extinguished by the share options and the difference between the fair value of the options issued and the liability is debited or credited to the statement of comprehensive income.

The fair value of warrants issued to third parties is calculated by reference to the service provided or if this not considered possible, calculated in the same way as for share options as detailed above. Typically, these amounts have related to equity issues where the amount deducted from share premium or other finance facilities where the charge treated as an arrangement fee and included in the effective interest rate calculation of borrowings.

1 Accounting policies continued

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 entity; 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 consolidated statement of comprehensive income except for those incurred on borrowings specifically allocable to development projects, which are capitalised as part of the cost of the asset.

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:

Recoverability of capitalised oil and gas assets
Management is required to assess oil and gas assets for indicators of impairment and have considered the economic value of these assets. Management has estimated the future recoverable amounts of these assets based upon the fair values attached to the significant exploration assets and have also considered the present value calculation of future cash flows expected to be derived from the production of commercial reserves. Judgment has been used in estimating the fair values and also within the present value calculations including the geological and commercial change of success, production volumes, commodity prices, foreign exchange rates, operating costs, capital expenditure and discount rates.

Specifically, discount rates reflect the current market assessment of the risks specific to the oil and gas sector and are based on the weighted average cost of capital for the Group. Where appropriate, the rates are adjusted to reflect the market assessment of any specific risks. The Group has applied a discount rate of 10% for the current year.

Fair value of share options and warrants
The fair value of options and warrants is calculated using appropriate estimates of expected volatility, risk free rates of return, expected life of the options/warrants, the dividend growth rate, the number of options expected to vest and the impact of any attached conditions of exercise. See note 14 for further details of these assumptions.

Valuation of derivatives associated with the Darwin Facility
As the ultimate value of these notes was dependent upon the value of the Company's ordinary shares, during 2014 management determined the fair value of derivatives (at inception and at 31 December 2014) based on the market share price of the Company of 25p and 6.75p respectively.

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 UK North Sea.

3 Operating profit/(loss)

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

	2015 £000	2014 £000
Fees payable to the Company's auditor:		
for the audit of the Company's and Group's financial statements	28	22
Exploration costs written off	10	641
(Impairment reversal)/impairment of oil and gas properties	(6,169)	8,254
Staff costs – fees and salaries	247	275
Staff costs - share-based incentives	321	1,343
Foreign exchange loss	65	77

4 Staff costs and directors' remuneration

During the year, the average number of personnel was:

	2015 Number	2014 Number
Management/operational	10	11
Directors	5	6
Personnel costs	**£000**	£000
Wages, salaries and fees	301	306
Social security costs	21	23
Share-based incentives	321	1,343
	643	1,672

An amount of £54,000 (2014: £54,000) was capitalised into exploration and evaluation assets.

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

Directors' remuneration	**Salary £000**	**Share-based incentives £000**	**2015 Total £000**	2014 Total £000
Mark Routh	106	156	262	667
Peter Young	124	63	187	443
Mehdi Varzi[1]	-	-	-	21
Marie-Louise Clayton	9	19	28	108
Michael Jordan	20	10	30	68
Paul Murray	10	17	27	-
	269	**265**	**534**	1,307

[1] Mehdi Varzi resigned on 5 November 2014.

The share-based incentive amounts represent the fair value of options issued in lieu of cash salary.

4 Staff costs and directors' remuneration continued

Social security costs for the year for key management personnel were £21,000 (2014 - £23,000).

The service agreements for Mark Routh, Peter Young, Marie-Louise Clayton, Michael Jordan and Paul Murray provide that only a proportion of the full contractual amount will be paid until the sooner of either the date on which the Company receives not less than gross funds of £10 million pursuant to a fundraising, or 31 December 2016 with the balance to be settled in share options granted.

The proportions paid in 2015 were 30% for Mark Routh, 75% for Peter Young, 50% for Michael Jordan and 0% for each of Marie-Louise Clayton and Paul Murray. For each six-month interval, ending on 28 February and 28 August respectively, the Company settles the difference between the reduced rate and the full rate through the granting of options over ordinary shares of the Company at the volume-weighted average share price over the period to which they relate. Amounts of salary outstanding at the 31 December 2015 to which these terms relate totalled £83,000 (31 December 2014 – £93,000) for directors and £81,000 (2014 - nil) for other personnel and were subsequently settled in share options on 1 March 2016.

Directors' interests in options on 1p ordinary shares of the Company at 31 December 2015 were as follows:

	Granted	Total 31 Dec 2014	Awarded in 2015	Total 31 Dec 2015	Exercise price	Expiry date
Mark Routh	23 Sept 2013	2,933,946	-	2,933,946	1p	30 Sep 2018
	23 Sept 2013	1,500,000	-	1,500,000	29.74p	23 Sept 2023
	23 Sept 2013	1,500,000	-	1,500,000	41.63p	23 Sept 2023
	19 Nov 2014	162,114	-	162,114	1p	28 Feb 2019
	19 Nov 2014	218,672	-	218,672	1p	31 Aug 2019
	1 Mar 2015	-	638,361	638,361	1p	28 Feb 2020
	31 Aug 2015	-	611,601	611,601	1p	31 Aug 2020
Peter Young	23 Sept 2013	1,700,000	-	1,700,000	1p	30 Sep 2018
	23 Sept 2013	750,000	-	750,000	29.74p	23 Sept 2023
	23 Sept 2013	750,000	-	750,000	41.63p	23 Sept 2023
	19 Nov 2014	122,814	-	122,814	1p	28 Feb 2019
	19 Nov 2014	71,405	-	71,405	1p	31 Aug 2019
	1 Mar 2015	-	172,717	172,717	1p	28 Feb 2020
	31 Aug 2015	-	165,476	165,476	1p	31 Aug 2020
Marie-Louise	23 Sept 2013	570,000		570,000	1p	30 Sept 2018
Clayton[1]	19 Nov 2014	24,563	-	24,563	1p	28 Feb 2019
	19 Nov 2014	45,699	-	45,699	1p	31 Aug 2019
	1 Mar 2015	-	138,173	138,173	1p	28 Feb 2020
	31 Aug 2015	-	132,381	132,381	1p	31 Aug 2020
Michael Jordan[2]	23 Sept 2013	290,000		290,000	1p	30 Sept 2018
	19 Nov 2014	24,563	-	24,563	1p	28 Feb 2019
	19 Nov 2014	24,754	-	24,754	1p	31 Aug 2019
	1 Mar 2015	-	69,087	69,087	1p	28 Feb 2020
	31 Aug 2015	-	66,191	66,191	1p	31 Aug 2020
Paul Murray	19 Nov 2014	51,878	-	51,878	1p	31 Aug 2019
	1 Mar 2015	-	138,173	138,173	1p	28 Feb 2020
	31 Aug 2015	-	132,381	132,381	1p	31 Aug 2020

1. Options granted to Clayton Consulting Partners Ltd, a company in which Marie-Louise Clayton is a majority shareholder and a director.
2. Options granted to Acura Oil & Gas Ltd, a company in which Mike Jordan is the majority shareholder and a director.

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 £11,000 for Directors and Officers Liability insurance during the year (2014: £13,000).

5 Finance (gain)/expense

	2015 £000	2014 £000
Interest on loans	123	100
Finance cost of derivative asset	-	61
(Gain)/ loss on derivative financial asset (note 11)	(204)	831
Other finance expense	20	145
	(61)	1,137

6 Taxation

a) Current taxation

There was no tax charge during the year since the Group profit for the year arose due to the reversal of impairment provisions. Applicable 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:

	2015 £000	2014 £000
Profit/(loss) for the year	5,322	(12,145)
Income tax expense	-	-
Profit/(loss) before income taxes	5,322	(12,145)
Expected tax charge/(credit) based on the standard rate of United Kingdom corporation tax at the domestic rate of 20.25% (2014: 21.5%)	1,078	(2,611)
Expenses not deductible for tax purposes	50	483
(Income)/expense not taxable/allowable	(1,249)	1,775
Unrecognised taxable losses carried forward	121	353
Total tax expense	-	-

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 £693,000 (2014: £572,000). A deferred tax asset will only be created if there is reasonable certainty that profits will be earned in the foreseeable future.

7 Profit/(loss) per share

	2015 **£000**	2014 £000
Profit/(loss) for the year attributable to shareholders	5,322	(12,145)
Weighted average number of ordinary shares	71,510,947	63,303,336
Weighted average number of ordinary shares – diluted basis	81,608,317	76,437,935
Profit/(loss) per share in pence - undiluted	7.4p	(19.2)p
Profit/(loss) per share in pence – diluted	6.5p	(19.2)p

Diluted profit per share is calculated based upon the weighted average number of ordinary shares plus the weighted average number of ordinary shares that would be issued upon conversion of potentially dilutive share options and warrants into ordinary shares. As the result for 2014 was a loss, the calculation of the diluted EPS was anti-dilutive and therefore the potential ordinary shares were ignored for the purposes of calculating diluted EPS. The impact of options and warrants issued during 2016 to-date has been to increase the weighted average number of ordinary shares on a diluted basis to 84,227,844 and reduce diluted earnings per share to 6.3 pence.

8 Non-current assets

Exploration and Evaluation assets - Group

	2015 **£000**	2014 £000
At cost		
At beginning of the year	15,767	15,259
Additions	1,136	508
At end of the year	16,903	15,767
Impairments and write-downs		
At beginning of the year	(8,254)	-
Impairment reversal/(impairment)	6,169	(8,254)
At end of the year	(2,085)	(8,254)
Net book value		
At 31 December	**14,818**	7,513
At 1 January	**7,513**	15,259

These costs principally comprise expenditures on the Group's Blythe and Skipper field interests. On 28 August 2015 (Blythe) and on 28 January 2016 (Skipper) each licence was extended to 31 December 2016. Financial commitments on these licences are covered in note 18.

8 Non-current assets continued

Following the significant fall in oil prices in late 2014, an impairment test was carried out on the carrying value of the Group's exploration and evaluation assets and a charge of £8,254,000 was recognised in the statement of comprehensive income. This comprised £6,169,000 for Skipper and £2,085,000 for Blythe.

On 22 December 2015, the Company announced the completion of the acquisition of an additional 50% interest in licence P1609 containing the Skipper field. The Company now owns 100% of the licence and field and has assumed operatorship. Under the terms of the agreement the Company will pay US$3 million upon approval of a Skipper field development plan and a further US$15 million shortly after field production has commenced.

In 2015, following a revised valuation of both assets, the Skipper impairment of £6,169,000 was reversed and the gain was taken to the statement of comprehensive income.

9 Investments

Company	**Shares in Group companies £000**	**Loans to Group companies £000**	**Total £000**
At cost			
At 1 January 2014	12,592	2,125	14,717
Additions	-	1,342	1,342
At 31 December 2014	12,592	3,467	16,059
Additions	-	1,311	1,311
At 31 December 2015	**12,592**	**4,778**	**17,370**
Impairment			
At 1 January 2014	-	-	-
Impairment	(8,254)	(1,870)	(10,124)
At 31 December 2014	(8,254)	(1,870)	(10,124)
Impairment reversal	6,169	-	6,169
At 31 December 2015	**(2,085)**	**(1,870)**	**(3,955)**
Net book value			
At 1 January 2015	4,338	1,597	5,935
At 31 December 2015	**10,507**	**2,908**	**13,415**

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

In recognition of the 2014 impairment charge against the carrying value of the Group's exploration and evaluation assets in 2014 described in note 8 above, an equivalent impairment of £10,124,000 against the carrying value of the Company's investment in its subsidiaries was charged to the Company's statement of comprehensive income. Of this £6,169,000 was reversed in 2015, reflecting the equivalent reversal of Skipper carrying costs described in note 8, and taken as a gain to the statement of comprehensive income.

9 Investments continued

The Company's subsidiaries are as follows:

Directly held	Country of incorporation	Area of operation	%
IOG Skipper Limited	United Kingdom	United Kingdom	100
IOG North Sea 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 operations

Licences United Kingdom	Beneficial interest	Operator
Blythe gas field Blocks 48/22b and 48/23a*	50%*	Alpha Petroleum Resources

*IOG has signed an agreement to acquire the 50% balance of licence interest.

11 Receivables and prepayments

	2015 £000	2014 £000
Group and Company		
VAT recoverable	139	3
Warrants and prepaid costs associated with new loan facilities (note 14)	1,354	-
Derivative financial asset	-	307

The derivative financial asset represents the carrying value of notes held in Darwin Strategic Limited which were provided as consideration for an equity issue on 4 June 2014. All of the voting rights were transferred on the date of the transaction. The actual consideration received will vary to the extent that the actual share price is greater or lower than the reference point. As the consideration is variable depending upon the Company's share price, the agreement is treated as a derivative financial asset and re-valued through the statement of comprehensive income with reference to the Company's share price.

In 2014 a loss was recognised on revaluation to the year-end of £831,000 charged in Group's statement of comprehensive income based upon the market value of the Company's ordinary shares of £0.675 at 31 December 2014 compared to £0.25 at the point of issue in June 2014. The notes were fully settled in 2015 with the Company receiving £512,000 giving rise to a gain of £204,000 as noted in note 5.

12 Current liabilities

	2015 £000	2014 £000
Group		
Loans	-	461
Trade payables	2,307	21
Amounts due to joint operation partners	63	8
Accruals	195	165
	2,565	655
Company		
Loans	-	461
Trade payables	847	21
Amounts due to joint operation partners	63	8
Accruals	176	149
	1,086	639

12 Current liabilities continued

Of the Group's total trade payables, £1,460,000 was due to Weatherford Technical Services Limited no later than 20 September 2016. Subsequently, during 2016 this date was extended by fifteen months to 20 December 2017 in return for increasing the interest rate from 9% to 12% effective from 31 December 2016 and lowering of the exercise price for 500,000 warrants to be issued to 8 pence each from the previously agreed price of 32 pence. In addition, if during 2016 the Brent crude price closes above US$40 per barrel for 30 consecutive days, 50% of the outstanding principal plus accrued interest will become payable by 31 December 2016. Similarly, if Brent closes above US$50 per barrel over the same period then the balance of the amount will become payable by 31 December 2016. As the first condition has now been met, 50% of the outstanding principal will become payable on 31 December 2016.

On 4 June 2014, the Company received £517,500 under a loan arrangement with Darwin Strategic Limited Repayment of the loan was to be £575,000 if paid within six months with further increases thereafter taking the final total due to £601,000. Of this £118,500 was repaid in July 2014 and further amounts totalling £236,500 were paid during 2015 before the balance of £246,000 was converted into ordinary shares on 13 October 2015.

Amounts of £57,500 in respect of the first six months and £4,000 in respect of part of the second six months were included in the amount outstanding at 31 December 2014.

13 Non-current liabilities

	2015	2014
	£000	£000
Group		
Trade creditors	**293**	1,586
Company		
Trade creditors	**24**	24

During 2015 Group trade creditors denominated in US$ were increased by £65,000 (2014 – £77,000) through changes to the £/US$ exchange rate.

Creditors' 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.

On 7 December 2015 new loan facilities were announced for £2.75 million and £2.0 million arranged with London Oil and Gas Limited and GEC Oil and Gas Limited respectively. On 11 December 2015 a further loan was announced for £0.8 million arranged with London Oil and Gas Limited. Each facility remained undrawn as 31 December 2015. There were warrants issued to London Oil and Gas Limited and GEC Oil and Gas Limited in respect of the above facilities. The valuation of these warrants is detailed in note 14 and as the facilities were undrawn at the year end the warrants are treated as a prepayment at the year end. On draw down the amounts will be debited against the loan facility and will be amortised over the life of the facility through the effective interest rate calculation.

14 Equity share capital

	Number	Share capital £000	Share premium £000	Total £000
Allotted, issued and fully paid				
At 1 January 2014				
- Ordinary shares of 1 pence each	59,531,854	595	15,425	16,020
Equity issued	5,625,000	56	1,350	1,406
Equity issued	4,090,910	41	409	450
Equity issue costs	-	-	(11)	(11)
Warrants issued	-	-	(10)	(10)
At 31 December 2014				
- Ordinary shares of 1 pence each	69,247,764	692	17,163	17,855
2015				
Equity issued	609,500	6	139	145
Equity issued	210,174	2	48	50
Settlement of loan via issue of shares	6,507,399	65	181	246
Equity issued	2,142,858	22	128	150
Placing fees	-	-	(10)	(10)
At 31 December 2015				
- Ordinary shares of 1 pence each	**78,717,695**	**787**	**17,649**	**18,436**

On 4 June 2014, the Company entered into an agreement with Darwin Strategic Limited ("Darwin") pursuant to which Darwin subscribed for 5,625,000 ordinary shares in the Company satisfied through the issue of 1,800,000 redeemable subscription notes by Darwin to the Company. These were recorded at the market price for ordinary shares on the date of issue of 25 pence applied to the total number of shares issued giving a total of £1,406,000.

The Company also agreed to issue 326,087 warrants to Darwin with an exercise price of 46 pence each expiring on 12 June 2017 to which a fair value of 3.09 pence each has been attributed using the Black Scholes model with a risk-free interest rate of 0.43%, a weighted life expectancy of three years and a 50% volatility factor resulting in a total charge of £10,000 to the share premium account.

On 5 November 2014, the Company issued 4,090,910 ordinary shares at a subscription price of 11 pence each to raise total proceeds of £450,000.

On 25 June 2015, the Company issued 609,500 ordinary shares and on 2 July 2015, the Company issued a further 210,174 ordinary shares at a subscription prices of 23.79 pence each to raise total proceeds of £145,000 and £50,000 respectively.

On 13 October 2015, the Company issued 6,507,399 ordinary shares at a subscription price of 3.777 pence each in satisfaction of the total debt of £246,000. The conversion price reflected 85% of the average quoted market price for IOG's ordinary shares over the three lowest average prices over the preceding 10-day trading period.

On 21 October 2015, the Company issued 2,142,858 ordinary shares at a subscription price of 7 pence each to raise total proceeds of £150,000.

14 Equity share capital continued

Share options and warrants

During the year the Company granted share options under its share option plan as follows:

	Number	Price	Grant	Expiry
1 January 2014	**11,373,946**	**14.72p**	23 Sep 2013	various
Staff options	334,054	1p	19 Nov 2014	28 Feb 2017
Staff options	470,512	1p	19 Nov 2014	31 Aug 2017
31 December 2014	**12,178,512**	**13.82p**		
Staff options	230,029	1p	1 Mar 2015	30 Sep 2018
Staff options	41,757	1p	1 Mar 2015	28 Feb 2019
Staff options	131,856	1p	1 Mar 2015	31 Aug 2019
Staff options	1,352,071	1p	1 Mar 2015	28 Feb 2020
Staff options	1,531,778	1p	31 Aug 2015	31 Aug 2020
31 December 2015	**15,466,003**	**11.09p**		

Options outstanding at 1 January 2014 include options granted under the Group's Long-Term Incentive Plan ("LTIP"). These 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 conditions set by the Remuneration Committee at the time of the grant are satisfied. Mark Routh as CEO and Peter Young as CFO were entitled to participate under the LTIP and at 31 December 2015 held 3 million and 1.5 million such options respectively. No LTIP options have vested or have been exercised to-date. Exercising of LTIP options are conditional upon continued employment within the Company.

The remaining staff options have been issued to directors and other personnel under (i) an AIM bonus scheme upon listing of the Company's shares in September 2013 (7,103,975 options) and (ii) as salary sacrifice options issued periodically in lieu of salary (3,862,028 options). Further details are provided in note 4. All of these options were issued at an exercise price of 1p per share and carry no additional performance conditions.

The remaining average contractual life of the 15,466,003 share options outstanding at 31 December 2015 (2014 – 12,178,512) was 4.56 years at that date (2014 – 3.68). All of the AIM bonus and salary sacrifice options, a total of 10,966,003, were exercisable at 31 December 2015.

The weighted average exercise price of the options was 11.09 pence at 31 December 2015 (2014 – 13.82 pence) and no options had been exercised, had expired or had been forfeited at that date.

The Company calculates the value of share-based compensation using the Black-Scholes option pricing model to estimate the fair value of share options and warrants at the date of grant. The fair value of options granted in 2015 is calculated as £166,000 (2014 - £73,000) and this has been fully charged to the statement of comprehensive income. The exercise price was determined as 1p (2014 – 1p).

14 Equity share capital continued

During the year the Company granted warrants as follows:

	Number	Exercise price	Grant	Expiry
1 January 2014	630,000	23.79p	24 Sep 2013	30 Sep 2016
Issued	326,087	46p	30 May 2014	4 Jun 2017
31 December 2014	**956,087**	**31.36p**		
Issued to GE Oil and Gas	4,989,122	11.9p	7 Dec 2015	30 Dec 2016
Issued to GE Oil and Gas	788,188	11.9p	29,Dec 2015	30 Dec 2016
Issued to London Oil and Gas	5,777,310	11.9p	29 Dec 2015	30 Dec 2016
Issued to London Oil and Gas	7,500,000	8p	29 Dec 2015	31 Dec 2016
31 December 2015	**20,010,707**	**11.37p**		

The fair value of warrants granted in 2015 is calculated as £1,272,000 (2014 - £10,000) all of which has been recognised as deferred financing costs and taken to the share-based payment reserve (2014 - £10,000). The average exercise price was determined as 10.36 pence (2014 – 46 pence).

The following assumptions were applied in the above calculations

	2015 options	2015 warrants
Risk free interest rate	4.3%	4.3%
Dividend yield	nil	nil
Weighted average life expectancy	4.3 years	1 year
Volatility factor	100%	100%

An estimated volatility of 100% has been applied based upon the approximate volatility of the Company's share price over the period from the Company's listing on AIM in September 2013 until December 31 2015.

15 Cash and cash equivalents

Group and Company	**2015 £000**	**2014 £000**
Cash at bank	**23**	**398**

16 Company profit for the year

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

The Company profit for the year was £5,667,000 (2014: loss of £13,070,000).

17 Financial instruments

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

Financial risk management
The Board seeks to minimise its exposure to financial risk by reviewing and agreeing policies for managing each financial risk and monitoring them on a regular basis. 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:

- Cash and cash equivalents
- Derivative assets
- Trade and other payables

17 Financial instruments continued

Liquidity risk

The Group's and Company's policy is to ensure that it will always have sufficient cash to allow it to meet its liabilities when they become due. To achieve this aim, it seeks to maintain readily available cash balances supplemented by borrowing facilities sufficient 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.

2015 Group	**6 months or less £000**	**Greater than 6 months, less than 12 months £000**	**Greater than 12 months £000**	**Total undiscounted £000**	**Carrying amount £000**
Current financial assets					
Cash and cash equivalents	23	-	-	23	23
	23	**-**	-	**23**	**23**
Current financial liabilities					
Loans					
Trade and other payables	1,232	1,430	-	2,662	2,662
Non-current financial liabilities					
Trade and other payables	**-**	-	293	293	293
	1,232	**1,430**	**293**	**2,955**	**2,955**
2014 Group					
Current assets					
Derivative instrument	-	307	-	307	307
Cash and cash equivalents	398	-	-	398	398
	398	**307**	-	**705**	**705**
Current financial liabilities					
Loans	461			461	461
Trade and other payables	194	-	-	194	194
Non-current financial liabilities					
Trade and other payables	**-**	-	1,772	1,772	1,772
	655	**-**	**1,772**	**2,427**	**2,247**

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

17 Financial instruments continued

2015 Company	**6 months or less £000**	**Greater than 6 months, less than 12 months £000**	**Greater than 12 months £000**	**Total undiscounted £000**	**Carrying amount £000**
Current assets					
Cash and cash equivalents	23	-	-	23	23
	23	**-**	-	**23**	**23**
Current financial liabilities					
Trade and other payables	1,086	-	-	1,086	1,086
Non-current financial liabilities					
Trade and other payables	**-**	-	24	24	24
	1,086	**-**	**24**	**1,110**	**1,110**
2014 Company	**£000**	**£000**	**£000**	**£000**	**£000**
Current financial assets					
Derivative instrument	-	307	-	307	307
Cash and cash equivalents	398	-	-	398	398
	398	**307**	-	**705**	**705**
Current financial liabilities					
Loans	461	-	-	461	461
Trade and other payables	178	-	-	178	178
Non-current financial liabilities					
Trade and other payables	**-**	-	24	24	24
	639	**-**	**24**	**663**	**663**

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

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.

	Carrying value £000	**Maximum exposure £000**
Group and Company:		
Cash and cash equivalents	23	23
Cash and cash equivalents	23	23

The Group made investments and advances into subsidiary companies during the year, recovery of which is dependent on future income generation of those subsidiaries.

The Group's and Company's external trade and other receivables comprise UK VAT and have not been impaired and which are non-interest bearing. The Group and Company do not hold any collateral as security and do not hold any significant provision in the impairment account for trade and other receivables as they relate to third parties with no default history

17 Financial instruments continued

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 have no impact upon the Group's and Company's result for the year ended 31 December 2015.

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$2,169,000 (£1,463,000) 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 £139,000 gain or loss in the statement of comprehensive income.

The Group carried limited exposure to foreign exchange risk during the period to 31 December 2015. 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.

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.

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 2015, the Group raised £345,000 through the issue of ordinary shares at an average £0.116 (2014 - £450,000 at an average £0.11) and issued a further 6,507,399 ordinary shares in satisfaction of £246,000 of debt owed to Darwin Securities (2014 issued 5,625,000 ordinary shares at £0.25 in return for notes issued by Darwin Securities).

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 though capital growth. In order to achieve and seek to maximise this return objective the Group and Company will in the future seek to maintain a gearing ratio that balances risks and returns at an acceptable level while also maintaining a sufficient funding base to enable the Group and Company to meet its working capital and strategic investment needs. In making decisions to adjust its capital structure to achieve these aims, either through new share issues, increases or reductions in debt, or altering a dividend or share buyback policies, the Group considers not only its short term position but also its medium and longer term operational and strategic objectives.

Borrowing facilities

The Group and Company had no borrowings outstanding at 31 December 2015 (2014 - £461,000). However, it had in place debt facilities for a total £5,550,000 which remained undrawn at that date.

Hedges

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

18 Financial commitments and contingent liabilities

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:

	2015 £000	2014 £000
Authorised but not contracted	7,180	7,500
Contracted	734	682
	7,914	8,182

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

Following completion of the acquisition of the remaining 50% of licence P1609, under the terms of the agreement, the Company will pay US$3 million upon approval of a Skipper field development plan and a further US$15 million shortly after field production has commenced.

19 Related party transactions

Details of directors' remuneration are provided in note 4.

Acura Oil & Gas Limited, ("**Acura**") of which Michael Jordan is a director, acquired no additional shares during the year (2014 – acquired 181,818 shares for £20,000). Acura held 6,957,560 shares at 31 December 2015 (2014 – 6,957,560) shares being 8.84% of the total issued share capital.

Mark Routh acquired no additional shares during the year (2014 – acquired 181,821 shares for £20,000). He held to 4,303,010 shares at 31 December 2015 (2014 – 4,303,010) shares being 5.47% of the total issued share capital.

Peter Young subscribed for 105,087 shares for £25,000 (2014 – acquired 181,818 for £20,000) bringing his total holding to 13,831,725 (2014 – 13,726,638) being 17.57% of the total issued share capital.

Marie Louise Clayton acquired no additional shares during the year (2014 – acquired 181,818 for £20,000). Including shares held directly by her, she held 2,732,591 shares at 31 December 2015 (2014 – 2,732,591) being 3.47% of the total issued share capital.

Paul Murray acquired no additional shares during the year (2014 – acquired 181,818 shares for £20,000). He held 951,420 shares at 31 December 2015 (2014 – 951,420 shares) being 1.21% of the total issued share capital.

20. Subsequent events

The key events subsequent to the year are as follows. Details of these events are provided in the Chief Executive's Report on page 2.

On 28 January 2016, the Company announced that the Skipper Licence P1609 Block 9/21a had been formally extended until 31 December 2016.

On 28 January 2016, the Company also announced that it had issued 444,989 ordinary shares to VSA Capital and an independent third party consultant as payment for advisory services received at 8.73p and 8.38p per share respectively being the Volume Weighted Average Price per ordinary share for the periods over which the services were provided.

On 5 February 2016, the Company announced that it had entered into a conditional agreement with London Oil and Gas Limited ("LOG") (part of London Group Limited) for the provision of a secured convertible loan facility for up to £10 million. The further loan funding was in addition to the existing £2.75 million and £0.8 million loans from LOG, as announced on 7 December 2015 and 11 December 2015 respectively, both of which remained undrawn as certain conditions precedent to their drawdown had yet to be satisfied. Details were as follows:

- loan secured against IOG's assets and fully convertible at LOG's election into IOG ordinary shares at a conversion price of 8p
- £3 million of the new facility to be used to fund corporate costs and licence fees up to July 2018
- £7 million of the new facility to be dedicated to fund acquisitions
- coupon of LIBOR + 9%, with accrued interest capitalised monthly and convertible with the principal loan.
- loan to be drawn in full within three years of completion
- each drawing to be converted into ordinary shares in IOG three years after drawing
- appointment of Martin Ruscoe as director
- resignation of Marie-Louise Clayton as director.

On 30 March 2016, the Company announced that all conditions in relation to the loan facilities had been satisfied.

On 5 February 2016, the Company announced that it had issued to AGR Well Management, to settle invoices relating to the work on the Skipper well planning, a total of 9,945,953 Ordinary Shares, at a price of 6.45p per Ordinary Share, being the weighted average share price over the period that the work was done.

On 7 March 2016, the Company issued a total of 1,042,395 ordinary shares in the capital of the Company:

- 31,579 ordinary shares were issued to an independent consultant for services provided to the Company during the month of January 2016. These shares were issued at 7.60p each being the volume weighted average price per share for the period over which the services were provided.
- 910,816 ordinary shares were issued to Clayton Consulting Partners Limited following the submission of notices to exercise all of the 1p options awarded to CCP, pursuant to two option agreements:

On 19 April 2016, the Company signed an agreement to acquire the other 50% of the licence covering Blocks 48/22b and 48/23a in the Southern North Sea, containing the Blythe gas discovery, from Alpha Petroleum Limited for an initial consideration of £1.5 million payable at completion with deferred consideration of a further US$5 million to be paid at first gas.

On 19 April 2016, a total of 2,937,192 new options were issued, with an exercise price of 1p each, to certain Directors, members of IOG's technical team and contractors in lieu of all or part of their salaries due between 1 September 2015 and 29 February 2016.

INFORMATION AND ADVISERS

Country of incorporation of parent company

United Kingdom

Legal form

Public limited company with share capital

Directors

Mark Routh
Peter Young
Michael Jordan
Paul Murray
Martin Ruscoe

Registered office

One America Square
Crosswall
London
EC3N 2SG

Company registered number

07434350

Auditors

BDO LLP
55 Baker Street,
London
W1U 7EU

INDEPENDENT
OIL & GAS PLC

Registered Address
One America Square
Crosswall
London EC3N 2SG

Office
Longcroft House, 2-8 Victoria Avenue
Bishopsgate
London EC2M 4NS

Contact
+44 (0)20 3206 1565
www.independentoilandgas.com