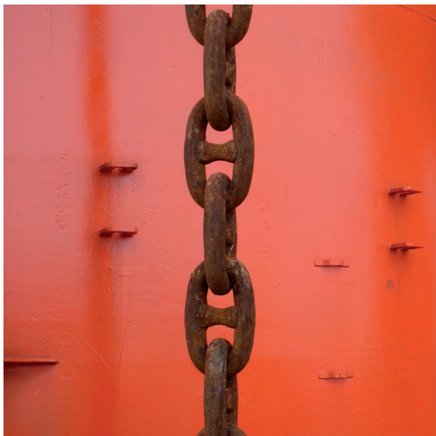
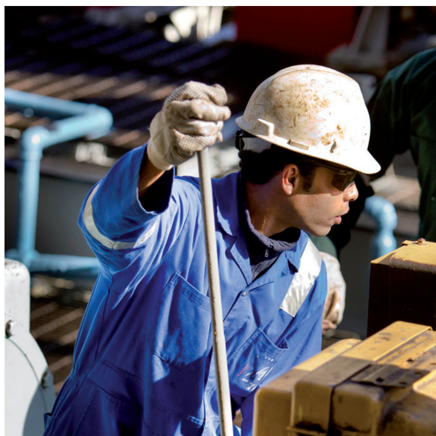
INDEPENDENT OIL & GAS PLC





ANNUAL REPORT & ACCOUNTS 2016

Independent Oil and Gas plc

Report and Audited Financial Statements

Year Ended

31 December 2016

Company Number 07434350

ANNUAL REPORT & ACCOUNTS 2016

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Annual Report 2016

Chief Executive's Review

2016 was a year of substantial progress for Independent Oil and Gas plc (the 'Company') in which we established a sizeable resource base as part of our strategy to create high-value gas hubs in the UK Southern North Sea ('SNS'). Capitalising on the industry downturn, we acquired over 330 BCF of gas resources (2P+2C) at compelling entry values. From below 50 BCF, we expanded in 2016 to nearly 400 BCF of 2P+2C recoverable gas across five fully-owned assets, with significant further appraisal upside that could lift the total to well over half a TCF. The acquisitions of 50% of Blythe and 100% of the Vulcan Satellites in 2016 were landmarks in the evolution of the Group. While relatively small, the Blythe transaction was strategically critical, giving us 100% ownership, operatorship and control of the full hub area. This position was then enhanced significantly with the addition of 100% ownership of the three Vulcan Satellite fields to the east. By negotiating to acquire the Thames pipeline post year-end at nominal cost alongside these two deals we have created an economically robust, high-margin dual gas-hub project in familiar UK waters, with a viable potential exit route and without resorting to expensive and risky exploration.

The Thames pipeline acquisition, then, is the key that unlocks our low-risk development and production strategy. In the SNS we are capturing latent value by identifying new ways to monetise assets that were either defunct or deemed to be of low value, thereby breathing new economic life into a mature basin. Recommissioning the Thames pipeline will not only save the Group up to £100 million in capital costs, but will turn stranded fields into valuable gas for the benefit of all: our investors, the economy and the exchequer. This innovative thinking is exactly what the next phase of the North Sea requires, especially in an era of increasing gas imports and coal's decline as an energy source.

Creative problem solving at the Company is not confined to acquisitions. Our approach to financing has, we believe, been similarly pioneering in the North Sea context. In 2016 we demonstrated how upstream operations can be funded by aligning the interests of all project participants. In that context, the £10 million convertible debt funding in February 2016 reinforced our alliance with London Oil and Gas Limited ('LOG') and ensured more robust finances for the road ahead. With the high-value SNS project to be developed, we now have the opportunity to demonstrate that our progressive approach to project funding will further enhance value. Indeed, this is an opportunity we are already taking, with a core group of blue-chip industry partners lining up to help fast-track the dual gas hubs into development. We anticipate the majority of the funding requirement for our SNS developments will come from contractor funding and gas offtake backed funding to be repaid from cashflows.

Alongside these successful acquisitions, the Company's gas business has been greatly strengthened by the 3D-seismic reinterpretation work undertaken during 2016. Through it we have gained a far better understanding of the geophysics of our licence areas and thereby substantially high-graded our portfolio. In particular, the emergence of Harvey as a gas appraisal asset of very exciting potential, favourably positioned between the Blythe and Vulcan hubs, has clearly validated the investment in this work. The Harvey structure has a previous gas discovery well. A further appraisal well may confirm it as the largest single asset in the Group portfolio. This would significantly further enhance what is already a very attractive two-hub development. Moreover, the 3D-seismic reinterpretation work also enabled the most efficient allocation of our capital, by showing that there were better value options than completing the previously negotiated Cronx acquisition. We have also recently commissioned an independent Competent Persons Report ('CPR') across the whole SNS portfolio which will be published later in 2017.

This successful year for the core gas business then continued with submission of the draft Blythe Field Development Plan ('FDP'), which summed up the extensive progress made on the Blythe hub. The final version, to be submitted in 2017, will also incorporate Elgood into a full Blythe Hub FDP, followed in short order by the Vulcan Satellites Hub FDP. The IOG team continues to work very hard on behalf of all investors to achieve first gas from these assets in a safe and prudent manner at the earliest feasible date. The Environmental Impact Assessment process for the SNS developments started early in 2017 to ensure that the process of FDP approvals remains on track.

Alongside this very satisfying progress in our gas business, in the summer of 2016 the Group drilled its first well as operator, a 100% working interest holder of the Skipper licence in the Northern North Sea. This was a key development for the Group, demonstrating that our small team could deliver an appraisal well in 100 metre water depth in the Northern North Sea with no HSE incidents. While the sample results did not live up to expectations, the well nevertheless confirmed the Group as a credible North Sea operator, establishing a commercial template and cementing relationships with industry and regulatory partners. The management team can take pride in drilling a well against a difficult macro-economic backdrop and in the creativity they showed in securing the financing to drill the well. In any event, we must acknowledge that at current oil prices Skipper is less attractive than our gas portfolio, where the breakeven price is less than USD 20/BOE. We must channel our resources into the most lucrative projects for our shareholders and accordingly, the gas hubs will take priority. We have thus decided not to focus on the Skipper heavy oil project at this stage which has resulted in a write-down of its book value in this year's accounts.

Management has clear objectives in 2017 to secure an appropriate capital structure for the Company and obtain full financing for the SNS and future UKCS opportunities. We are continuing negotiations with Skipper well creditors and

seeking agreement for the conversion of up to £6.5 million of outstanding creditor balances to equity. We are progressing discussions with potential new strategic partners to broaden the investor base through the introduction of additional capital and to work alongside LOG. We are also working collaboratively with LOG, major contractors, gas offtakers and banks to implement an innovative financing structure for our SNS gas hubs development.

Government support for our North Sea strategy from the UK Oil & Gas Authority ('OGA') and the Department for Business, Energy & Industrial Strategy ('BEIS'), while something we never take for granted, has been very encouraging throughout this period. We continue to enjoy very constructive dialogues with these bodies in 2017 on FDPs, licence milestones, and infrastructure commitments.

The past year also witnessed the continued strengthening of the Board, management and technical team. We deepened our executive team with the additions of Andrew Hockey as Deputy CEO and Hywel John as CFO, with both joining the Board. Their considerable expertise will be invaluable to our future progress. We also welcomed the appointments of the vastly experienced Martin Ruscoe and the Rt. Hon. Charles Hendry as nominees of LOG to the Board of directors, as well as Andrew Hay as an independent Non-Executive Director. On the management side, our technical capabilities were greatly enhanced with the appointments of Doug Fenwick as Technical Director and Graham Cox as SNS Project Manager, and the team continues to be strengthened as we move forward.

The Company also undertook extensive M&A activity in addition to the successful transactions above, evaluating several potential acquisition opportunities. It remains one of the Company's strategic objectives to acquire value accretive producing assets that can provide a predictable operating cashflow to the business, help fund development activities and further enhance our operating capabilities. We have the skills in the team to do just that and we also have the benefit of significant tax losses that came with the Vulcan Satellites acquisition. It is, however, critical to remain disciplined in such processes and to ensure the right balance of risk and reward. Some of these discussions remain live at the time of writing, while further suitable opportunities are also likely to arise in 2017 and beyond. As ever, the management and Board will be primarily focused on finding compelling value propositions where we believe we have a differentiated position as a buyer.

IOG has a busy work programme over the coming twelve months and the newly strengthened management and operations team are focused on successfully delivering our gas hub strategy alongside pursuing acquisition opportunities which are value accretive and a strategic fit.

Strategic Report

Highlights of 2016: -

- **£10 million convertible loan funding:** The Group secured a £10 million convertible loan facility from LOG, providing additional working capital and access to funding for acquisitions. £3 million of the facility was designated to cover corporate G&A and licence fees up to July 2018, whilst £7 million was dedicated to fund acquisitions to add value to the Group portfolio. This transaction took the total funding from LOG up to £13.55 million.
- **Blythe acquisition:** The Group agreed and completed the acquisition of the other 50% of licence P1736 (Blocks 48/22b & 48/23a) containing the Blythe discovery and assumed operatorship of the asset. At £1.5 million, with a deferred consideration of USD 5 million at first gas, this acquisition was low-cost and a strategically important addition to the portfolio, giving the Group full ownership and control over the assets designated for the Group's first development hub. It also doubled the Group's independently verified 2P reserves by 17.2 BCF to 34.3 BCF which is 6.2 million barrels of oil equivalent ('MMBoe'), based on the 2013 CPR, and enabled the Group to focus on progressing the Field Development Plan.
- **Blythe Draft FDP Submission:** In December, the Group submitted the draft of the Blythe FDP to the OGA. This was a licence requirement and a key milestone for the Group as it gears up towards full development of the field.
- **Completion of 3D-Seismic reprocessing and increase in SNS resource estimates:** The Company undertook detailed new interpretations of 1990s 3D-seismic data of its licences around the Blythe Hub area, in collaboration with Beagle Geoscience. Analysis of the data across these licences increased the Group's internal estimates of P50 probabilistic gas resources from 382 BCF to 490 BCF. In particular, the P50 resources at Harvey increased to 113 BCF (previously 16 BCF) and the P50 resources at Elgood increased to 22 BCF (previously 11 BCF). Independent CPRs will be completed and published in 2017.
- **Vulcan Satellites acquisition:** The Company agreed and completed the acquisition of Oyster Petroleum Limited (renamed IOG UK Limited), a subsidiary of Verus Petroleum containing the Vulcan Satellites gas fields in the UK SNS for an initial consideration of £1 million, £0.75 million payable nine months after completion and further deferred payments of up to £3.25 million upon the achievement of certain milestones. The acquisition increased the Group's 2C recoverable resources by 320.7 BCF, or 55.3 MMBoe, at an effective cost of USD 0.22/Boe. The Vulcan Satellites, which require no further appraisal, lie 30-45km east of the Blythe field. IOG UK Limited also holds approximately USD 25.6 million in UK pre-trading expenditure which may reduce the future amount of tax payable by the Group.
- **Board changes:** During 2016, Marie-Louise Clayton, Paul Murray and Michael Jordan stepped down as Non-Executive Directors to concentrate on other activities. The Company appointed Martin Ruscoe as a Non-Executive Director as the appointed representative on IOG's Board pursuant to the loan agreements with LOG. The Company also appointed Andrew Hay as a Senior Independent Non-Executive Director. David Peattie was appointed as Chairman of the Company. He since resigned in 2017 to take over as Chief Executive of the UK Nuclear Decommissioning Authority.
- **Accreditation as operator:** Ahead of the appraisal well on the Skipper field, the UK OGA approved the Group's subsidiary company, IOG North Sea Limited, as exploration operator. Qualifying as an exploration operator was an important step forward for the business, not only with respect to drilling the appraisal well, but also in terms of opening up other asset opportunities and progressing on to production operatorship in due course.

Post year-end developments: -

- **Acquisition of the Thames Pipeline:** In April 2017, the Company signed a Sales & Purchase Agreement ('SPA') to acquire the recently decommissioned Thames Gas Pipeline in the SNS for a nominal consideration of £1 from Perenco UK Limited, Tullow Oil SK Limited and Centrica Resources Limited. The pipeline will provide the proposed export route for all the Group's current SNS asset portfolio. Estimated initial capacity of the 24-inch Thames pipeline is 300 million cubic feet per day ('MMcfd'). The Group will own 100% and operate the pipeline, giving the Company control from field to market. No tariff will be payable for the transportation of the gas to the onshore Bacton Gas Terminal. Completion is subject to the standard regulatory consents and provision of security to Perenco to cover the cost of additional pipeline integrity surveys that may be required in the future (estimated maximum cost of £500,000). Upon completion of the acquisition the Group is planning to undertake an intelligent pigging inspection to ensure the pipeline's integrity for safe re-use. The Group has already undertaken extensive engineering studies to evaluate the current condition of the Thames Pipeline, based on latest data on wall thickness and corrosion rates from the previous operator and comparable North Sea pipelines. This work firmly indicates that the pipeline's current condition is well within the parameters required to perform its intended function safely. The purpose of the pigging operations is to confirm that the pipeline's condition is in line with expectations and to identify any potential areas

that may require remediation. This in turn will allow the Group to confirm the optimal operating pressures and maximum throughput capacity of the pipeline and will provide essential input into the flow assurance work and safety case for the Blythe, Elgood and Vulcan Satellite field developments. The operation will involve cutting the pipeline on the seabed at the nearest point to the Vulcan South gas field and installing the necessary hardware to facilitate the pigging operations and to allow the pipeline to be connected to the Company's two gas development hubs in due course. Onshore facilities will also be refurbished at the Bacton gas terminal including manufacturing and installing a temporary pig trap. Basic pigs will initially be used to clear the line before an intelligent pig is run to ensure the best quality data can be obtained. The Group has now awarded a contract to Rosen Europe BV and has signed a Letter of Intent with Subsea 7 to undertake the offshore pigging work. The Group has also awarded a further contract to EnerMech Ltd for the onshore support and refurbishment work. The pigging operation is scheduled to take place in the third quarter of 2017 subject to the Company arranging the requisite financing. Initial results would be available at the time with full results following within three months. Further security is expected to be provided to the former Thames owners three months prior to first gas.

- **Harvey Licence Extension:** The OGA confirmed the continuation of licence P2085, which contains the Harvey discovery, until 20 December 2017. If successfully appraised, Harvey has the potential to be the largest gas discovery in the Group portfolio and significantly enhance the economics of the Group's SNS business. The range of resources estimated by management is large with the P90, P50, P10 of 44 BCF, 113 BCF and 290 BCF respectively. Harvey is 100% owned and operated by IOG North Sea Limited. The gas reservoir is in the well understood Leman Sandstone Formation play. A commitment to drill an appraisal well is required to extend the term further and IOG North Sea Limited would expect to make that commitment later in 2017.

- **Acceptance of Elgood work:** The OGA also accepted the technical work prepared and submitted by the Group in relation to the Elgood discovery and agreed that Elgood should be added to the Blythe FDP as a subsea satellite development. The FDP is being prepared with submission to the OGA expected in mid-2017. Both Elgood and Blythe are 100% owned and operated by IOG North Sea Limited.

- **Strengthening of Board and management team:** In March 2017, the Company significantly strengthened the Board and management team through the appointments of Andrew Hockey as Deputy Chief Executive and Director, Hywel John as Chief Financial Officer and Director and the Rt. Hon. Charles Hendry as Non-Executive Director and nominee of LOG to the Board. Andrew Hockey has 35 years' experience in the oil and gas industry, most recently with Fairfield Energy and Sound Energy, and led the early development of Clipper South, a successful SNS producing gas field which is analogous to the Vulcan Satellites development. Hywel John was previously CEO of Bayfield Energy, CFO of Candax Energy and senior executive at Burren Energy. The Rt. Hon. Charles Hendry was minister of State for Energy between May 2010 and September 2012. David Peattie resigned as Chairman to assume the role of Chief Executive of the UK Nuclear Decommissioning Authority and Mark Routh was appointed as Interim Executive Chairman. Graham Cox, previously Project Manager on the Clipper South development, also joined the Company as SNS Project Manager and Peter Young moved to become Head of Business Origination.

Health, Safety and Environmental Policy

The Company Health, Safety and Environmental ('HSE') Policy has been developed for the formal Company Environmental Management System ('EMS') in accordance with the requirements of the ISO14001 Standard. The most recent version of the policy was approved by the Board in June 2016 as part of the preparations to drill the Skipper appraisal well. This policy will guide the development of the EMS and its operating practices going forward.

Environmental Management

As referenced above, an EMS has been developed to manage the environmental aspects of the Group's offshore operations. The scope of the EMS covers offshore exploration drilling, site and environmental surveys and office based activities carried out in support of offshore operations. It is the goal of the Company to achieve both external certification of the EMS to ISO14001 and associated verification to OSPAR Recommendation 2003/5 in 2018.

A key part of the function of the EMS is to identify the significant environmental aspects of the Group'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 the Group 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). The Company 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 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

The Company'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 and balanced portfolio of near and long term developments, ideally with appraisal 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 appraisal assets that can be developed through common existing infrastructure, thereby generating significant economies of scale. The Company is executing this strategy in order to create UK SNS gas hubs with the acquisition of the remainder of the Blythe licence, along with operatorship, in addition to the acquisition of the Vulcan Satellites and the successful award of the Harvey and Elgood licences.

Given the steady rise of imported vs domestic gas in the UK over the last decade and the country's dependency on gas for power, industry and heating, the maximising of gas resources in the North Sea makes strategic sense and will help deliver energy security in the UK.

The Company was granted exploration operator status by the OGA with respect to the Skipper licence, which is the step before production operatorship status which the Company will achieve at its SNS gas hubs at the point of FDP approval. This 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 major oil companies 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

The Company, through its wholly owned subsidiaries IOG North Sea Limited and IOG UK Limited is currently a licensee on six Traditional Licences and two Promote Licences all in the UK North Sea;

Licence	Blocks	Subsidiary	Interest	Discovery Name	Licence Type
Blythe/Elgood Hub					
P1736	48/22b ALL and 48/23a ALL	IOG North Sea Limited	100%	Blythe	Traditional
P2260	48/22c ALL	IOG North Sea Limited	100%	Elgood	Promote
P2085	48/23c ALL and 48/24b ALL	IOG North Sea Limited	100%	Harvey	Promote
Vulcan Satellites Hub					
P039	49/21a J	IOG UK Limited	100%	Vulcan E	Traditional
P2122	49/21d ALL	IOG UK Limited	100%	Vulcan E	Traditional
P130	48/25b NW VULCAN	IOG UK Limited	100%	Vulcan NW	Traditional
P1915	49/21c ALL	IOG UK Limited	100%	Vulcan S	Traditional
Skipper					
P1609	9/21a ALL	IOG North Sea Limited	100%	Skipper	Traditional

Statement of Reserves & Resources

SNS Hubs GIIP and Resources

SNS Portfolio	Gas Initially in Place			Estimated resources		
Field	**(BCF)**			**(BCF)**		
Blythe Hub						
	P90	**P50**	**P10**	**1P**	**2P**	**3P**
Blythe Discovery *	39	52	84	22	34	48
	P90	**P50**	**P10**	**1C**	**2C**	**3C**
Elgood Discovery ***	26	35	48	15	22	31
Harvey Appraisal ***	77	176	403	44	113	290
Total Blythe Hub	**142**	**263**	**535**	**81**	**169**	**369**
**Vulcan Satellites Hub ** **						
	P90	**P50**	**P10**	**1C**	**2C**	**3C**
Vulcan North West	184	215	251	112	131	153
Vulcan East	104	124	145	64	77	91
Vulcan South	117	186	275	59	112	193
Total Vulcan Satellites Hub	**405**	**526**	**671**	**234**	**321**	**438**
Totals SNS Portfolio	**547**	**789**	**1206**	**315**	**490**	**806**

Sources:

* ERC Equipoise CPR September 2013. Note: The Company acquired 50% of the Blythe licence in June 2016, so these numbers are doubled from the 2015 Annual Report.

** AGR Tracs Technical Summary – April 2015.

*** IOG internal view – December 2016.

Skipper STOIIP and Resources

	Discovered Oil Initially in Place			Contingent Resources		
Field	**(MMBbls)**			**(MMBbls)**		
	P90	**P50**	**P10**	**1C**	**2C**	**3C**
Skipper	**123.1**	**136.5**	**150.8**	**17.9**	**26.2**	**34.9**

Source: AGR Tracs CPR - September 2013.

Operational Update

Blythe

The Blythe gas discovery in the Rotliegendes Leman formation, straddles Blocks 48/22b and 48/23a in the SNS in licence P1736. In June 2016, the Group completed the purchase of the remaining 50% of the licence from Alpha Petroleum Resources Limited, obtaining operatorship with 100% working interest. The acquisition, which doubled the Company's independently verified 2P reserves, assumed consideration of £1.5 million payable at completion with a further USD 5 million payable upon first gas.

In December 2016, IOG North Sea Limited submitted a draft FDP to the OGA. Submission of a final FDP for the Blythe Hub, including both the Blythe and Elgood fields, is targeted for mid-2017. In March 2017, the OGA agreed to extend the Blythe licence until 31 December 2017, conditional upon the achievement of certain milestones including final FDP submission. Upon approval of the final FDP, it is expected that the licence would then continue into the development phase.

Blythe needs no further appraisal and has independently verified gross 2P reserves of 34.3 BCF or 6.2 MMBoe (Source: ERC Equipoise Competent Person's Report dated September 2013.) On completion of the 3D-seismic reinterpretation and re-mapping work undertaken by Beagle Geoscience in 2016, dynamic reservoir modelling has been undertaken for the Group in the first half of 2017 by ERC Equipoise. Consequently, the Group's view of the mid-case recoverable gas at Blythe has been updated to 41.5 BCF. This estimate remains subject to potential change depending on the completion of reservoir modelling on the Vulcan Satellites assets which may impact the forecast production profiles for the Blythe hub assets. The Company intends to validate the increase in estimated recoverable volumes through an updated CPR during 2017.

The Group has, in the meantime, been progressing its field development work on Blythe and the other SNS assets. The current development plan for Blythe incorporates a single high-angle development well, a Normally Unmanned Installation ('NUI') platform at the field, and gas exported via the acquired and recommissioned Thames pipeline to the Bacton Gas Terminal. Final Investment Decision ('FID') on Blythe is expected to be reached by the first quarter of 2019, with first gas expected to follow by the second quarter of 2019. The Company is in advanced discussions regarding the financing, commercial and offtake arrangements for the asset**. The Group's latest economic forecasts estimate that Blythe has an un-risked net present value (using a 10% discount rate) in the region of £35 million, with a life-of-field average breakeven gas price in the range of 24-25p/therm.**

Gas tested to surface from three separate intervals in the Carboniferous formation, 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 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 continuing now that a development will proceed on the main Blythe gas discovery.

Elgood

IOG North Sea Limited has 100% working interest in and is operator of Licence P2260 (Block 48/22c), which was awarded in the 28th Licensing Round. The licence, which lies immediately to the north-west of the Blythe licence, contains the Elgood discovery. The Company is now working on the development plan for Elgood as part of the wider Blythe hub field development plan to be submitted in final form during 2017. Under this plan, Elgood would be developed as a subsea tie-back to the NUI platform at Blythe and first gas would come after Blythe in 2019.

Based on the 3D-seismic reinterpretation and remapping work undertaken in 2016 by Beagle Geoscience, the internal management probabilistic estimates of the P90/P50/P10 gas initially in place for Elgood are 26/35/48 BCF and probabilistic estimates of the P90/P50/P10 resources are 15/22/31 BCF. Dynamic reservoir modelling work undertaken by ERC Equipoise in the first half of 2017 has further updated management's view of the recoverable volumes at Elgood.

Developed as part of a hub with Blythe, the Company's view of the mid-case recoverable volumes at Elgood is now 27.0 BCF. This estimate remains subject to potential change depending on the completion of reservoir modelling on the Vulcan Satellites assets which may impact the forecast production profiles for the Blythe hub assets. The Company intends to validate the increase in estimated recoverable volumes through an updated CPR during 2017.

Elgood is a good quality Rotliegend Leman sandstone reservoir that tested gas at rates in excess of 17 MMcfd when it was first drilled by Enterprise Oil in 1991. Gas was also tested from the Hauptdolomit interval 700 feet above the Leman interval but at low rates without stimulation. The field was not progressed by Enterprise due to the understanding of its size and gas prices at that time. **Based on the Group's latest recoverable volume numbers, however, and developed as a subsea tie-back to Blythe, the Company estimates that Elgood has an un-risked net present value (using a 10% discount rate) in the region of £30 million, with a life-of-field average breakeven gas price in the range of 16-17p/therm.**

Vulcan Satellites

In October 2016, the Group added the three Vulcan Satellites fields to its portfolio through the acquisition of Oyster Petroleum Limited from Verus Petroleum. Oyster Petroleum Limited has been renamed IOG UK Limited and is a wholly owned subsidiary of the Company. The acquisition increased the Group's 2C gas resources by 320.7 BCF (55.3 MMBoe) at a total consideration of £5 million, £1 million of which was paid upon completion.

The Vulcan Satellites comprise three fields, Vulcan East, Vulcan North West and Vulcan South, which hold independently estimated 2C resources of 77.4 BCF, 131.3 BCF and 112.0 BCF respectively, 320.7 BCF or 55.3 MMBoe collectively. These fields lie in Block 49/21a (Licence P039), Block 49/21d (Licence P2122), Block 48/25b (Licence P130) and Block 49/21c (Licence P1915) in the UK sector of the SNS, approximately 30-45km east of the Group's Blythe field. The fields are considered ready for development with no further appraisal required.

The Company is preparing a joint Vulcan Satellites hub FDP for these three assets, which will be co-developed as a gas hub using up to three NUI platforms with gas exported via the acquired and recommissioned Thames pipeline. This FDP is expected to be submitted in the second half of 2017. Reservoir modelling and other technical and engineering studies are ongoing in the second quarter of 2017 as inputs to this FDP. Once that work is complete, the Company intends to commission an updated CPR on the Vulcan Satellite fields during the course of 2017.

The Company provisionally anticipates the development plan to consist of a total of seven fracture stimulated wells. FID on the Vulcan Satellites is expected to be reached by the first quarter of 2018, with first gas expected to follow by the second quarter of 2019. The Company is in increasingly advanced discussions regarding the financing, commercial and gas offtake arrangements for the assets. **The Group's latest economic forecasts estimate that the Vulcan Satellites collectively have an un-risked net present value (using a 10% discount rate) in the region of £290 million, with a life-of-field average breakeven gas price in the 15-16p/therm range.**

IOG UK Limited has assumed liability for decommissioning a suspended well on Vulcan East, which in April 2015 was independently estimated to cost £3.5 million as part of a development campaign, based on prevailing rig rates at that time.

Harvey

IOG North Sea Limited has a 100% working interest in licence P2085 to the east of Blythe (Blocks 48/23c & 48/24b) which was awarded in the 27th Licensing Round. Recent 3D-seismic reprocessing and remapping by Beagle Geoscience Limited has led to an improved understanding of the complex faulting that exists in the overlying strata. **Based on this work, the internal management probabilistic estimates of the P90/P50/P10 gas initially in place for Harvey are 77/176/403 BCF and probabilistic estimates of the P90/P50/P10 resources are 44/113/290 BCF. Therefore, if appraisal confirms these volumes, Harvey has the potential to be the biggest single asset in the Group's SNS portfolio.**

Appraisal drilling will be required to better understand gas volumes in place, build a reservoir model and prepare a development plan. Under the P2085 licence, the Group would need to commit to this well before the end of 2017. It would most likely be drilled as part of the Blythe and Vulcan hubs development drilling campaign, which is expected in 2019, however depending on other factors it may be possible to accelerate this to 2018. If the appraisal well is successful, the Company believes that the most likely development plan would be to install a NUI platform at the field and a connector pipeline exporting the gas to the acquired and recommissioned Thames Pipeline approximately 20km to the south. Based on management's understanding of the reservoir to date, fracture stimulation activity is deemed not likely to be required for field development.

Skipper

In the second quarter of 2016, the Group completed its first operated well, the appraisal of the 100%-owned and operated Skipper oil discovery which lies in Block 9/21a in licence P1609 in the Northern North Sea. The well was drilled to a total vertical depth of 5,578ft with no safety incidents and achieved its primary objective of retrieving good quality reservoir condition oil samples from the reservoir. Sample analysis results subsequently indicated that oil has a high density of approximately 11° API, a high viscosity and a high Total Acid Number ('TAN'). Further technical and commercial evaluation has led to a decision to focus on the SNS gas development hubs near term given the highly attractive economics of our gas portfolio and not to focus on the Skipper heavy oil project at this stage.

Asset Acquisitions

The Company continues to assess the potential for acquisition of a number of assets, particularly those already in production, 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

Income Statement

The Group made a loss for the year of £21.44 million during 2016 (2015 – profit of £5.32 million). The principal component was a net impairment made against oil and gas properties of £20.01 million (2015 - £6.17 million impairment reversal) together with net administration expenses of £0.28 million (2015 – £0.83 million) which includes non-cash share-based payments of £0.2 million (2015 - £0.32 million).

The net impairment relates to the full impairment taken on the Skipper field, £22.10 million, as previously discussed in the Operational Update, offset by the impairment reversal on Blythe, £2.09 million. As a full impairment was taken on the Skipper field, this released long term trade creditors of £0.30 million and these have been credited to the Statement of Comprehensive Income. Net administration expenses comprised general and administration expenses of £1.52 million (2015 - £1.04 million) including share-based payment expense above, offset by £1.24 million (2015 - £0.21 million) expensed to business development ('BD') projects and capitalised to assets throughout the Group. This highlights the significant increase in BD and asset activity throughout the year. Cash settled personnel costs have been maintained at a low level during both 2016 (and 2015) in favour of a sacrificed salary element taken as equity-based incentives. Pre-licence exploration expenses in the sum of £0.71 million (2015 - £0.01 million) again represent the significant increase in BD activity in the year; these costs are expensed whilst post award costs are capitalised. A finance expense of £0.90 million (2015 – gain £0.06 million) includes accrued interest payable on loans and both current and amortised expenses on loan finance facilities.

Balance Sheet

The decrease in exploration and evaluation ('E&E') intangible oil and gas assets during 2016 from £14.818 million to £5.825 million is represented by the Skipper impairment, together with the reclassification of the Blythe oil and gas asset to property, plant and equipment ('PPE'). This is offset by the acquisition of Oyster Petroleum Limited, incorporating the Vulcan Satellite assets.

Current assets have decreased to £0.53 million from £1.52 million mainly resulting from the reclassification of prepaid loan finance costs. Such prepayment is now offset against non-current liabilities with the current year amortisation taken to the Statement of Comprehensive Income.

Total liabilities have increased to £18.19 million from £2.86 million mainly resulting from the drawings on the loans provided by London Oil & Gas Limited and GE Oil & Gas UK Limited – see table below. These liabilities include Skipper deferred trade creditors of £4.36 million, deferred consideration of £0.75 million, LOG loan facilities of £5.75 million, GE Oil & Gas Limited loan facility of £2.08 million and Weatherford Technical Service Limited loan facility of £1.99 million. The outstanding loan from Weatherford Technical Services Limited was discharged in full on 24 May 2017.

Cash Flow

The Directors will not be recommending payment of a dividend.

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

On 4 December 2015, the Company secured agreement for a loan of £2.75 million from London Oil & Gas Limited ('LOG') in parallel with a £2.0 million loan from GE Oil & Gas UK Limited ('GE'). On 11 December 2015, a further loan of £0.8 million was provided by LOG. On 5 February 2016, a further £10.0 million loan was provided by LOG.

The loans are secured over the Group's assets and, following an amendment to these agreements in 1Q 2016, all LOG loans are now due to be redeemed thirty-six months following each individual drawdown; the GE loan is fully repayable at the end of 2017. Interest of LIBOR + 9% per annum accrues on a cumulative monthly basis on each drawdown. GE also agreed to provide wellhead equipment to the Group for the Skipper appraisal well on a fully deferred basis, to be paid for at the same time as repaying the GE loan at the end of 2017.

In support of these loans, the Company agreed to issue 5,777,310 warrants over the Company's ordinary shares to each of LOG and GE. GE exercised their warrants in full in 4Q 2016.

Table 1: Summary Loans with LOG and GE

	Facility Amount (£ million)	Available until	Interest rate	Warrants / Convertible details	Repayment by
GE	£2.00	30 Dec-17	LIBOR + 9%	5,777,310 warrants @ 11.9p	30 Dec-17
LOG	£2.75	31 Dec-19	LIBOR + 9%.	5,777,310 warrants @ 11.9p	36 months from drawing
LOG	£0.80	31 Dec-19	LIBOR + 9%.	7,500,000 warrants @ 8p	36 months from drawing
LOG	£10.00	31 Dec-19	LIBOR + 9%.	8p conversion price	36 months from drawing
	£15.55				

All Conditions Precedent to the LOG and GE loans have been met and have been drawn with agreement from both LOG and GE. As at 1 January 2017, £250k per month has been committed to cover the Group's general and administration expenses through to 30 June 2018.

The aim of the £10.0 million LOG loan is to support general and administration expenditures, together with acquisitions in the endemic oil and gas E&P sector low-price environment, but also organic growth. During 2016, the additional 50% acquisition of the Blythe licence was funded from this facility, together with the acquisition of Oyster Petroleum Limited (renamed IOG UK Limited), incorporating the Vulcan Satellite assets. The loan, including accrued interest, may be converted into new ordinary Company shares at a price of 8p per share at LOG's election prior to repayment. This loan has a coupon of LIBOR + 9%, consistent with the other LOG loan facilities, which is deferred until maturity.

Including the loan from Weatherford Technical Services Limited the Group and Company had £9,825,000 borrowings outstanding at 31 December 2016 (2015 - £1,460,000) including accrued interest. It had in place further undrawn debt on the London Oil & Gas Limited facilities of a total £8,009,000, excluding accrued interest, at that date.

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 several 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 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 2016 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 19 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 & Liquidity

The Board has reviewed the Group's cash flow forecasts up until December 2018 having regard to its current financial position and operational objectives. These forecasts indicate that the Group will need additional funding to enable it to meet its liabilities as they fall due in the next twelve months. The Board is satisfied that the Group will have sufficient financial resources available to meet its commitments based on the amount of available cash within the Group, its existing debt facilities that can be drawn down, the likelihood of it being able to secure additional funding from existing shareholders or new investors and to agree either the rescheduling of certain existing liabilities to creditors or conversion of such amounts to equity. Additionally, the Group can cut discretionary expenditure and reduce headcount to reduce financing requirements further. Accordingly, the Board continues to adopt the going concern basis for the preparation of these financial statements.

However, at the date of approval of these financial statements there are no legally binding agreements in place relating for either fundraising or the deferral or settlement of existing creditors through equity issues. There can be no certainty that additional funds will be forthcoming or the creditors will agree to changes in contractual terms and these conditions indicate the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern and therefore it may be unable to realise its assets and discharge its liabilities in the normal course of business. The financial statements do not include the adjustments that would result if the Group was unable to continue as a going concern.

The strategic report on pages 4 to 15 is issued and signed on behalf of the Board by:

Hywel John
Chief Financial Officer
25 May 2017

Board of Directors

The Company 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.

Mark Routh - Chief Executive Officer and interim Chairman

Mark 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 ('CH4'), an 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, Mark served for ten years with Amerada Hess, six years with BP and five years with Schlumberger in South East Asia and the North Sea. Mark is also the non-executive Chairman of Warrego Energy Limited, a company with onshore gas assets in Western Australia.

Andrew Hockey – Deputy Chief Executive Officer (appointed 20 March 2017)

Having worked in the industry for 35 years, Andrew Hockey has significant sector experience. He has a technical background with a degree in geology from Oxford University and a Master's Degree in petroleum geology from Imperial College London. Until the end of 2015 Andrew was General Manager of Business Development at UKCS oil and gas exploration and production company Fairfield Energy Limited which he helped to found in 2005. Andrew led the team to acquire Clipper South as an undeveloped discovery from Shell and Esso and then subsequently managed its development via farm down and funding through to first gas in 2012. Andrew is now a non-executive director of Fairfield Energy and a founder of its parent company, Decom Energy Limited. Andrew has also served on the board of AIM-listed Sound Energy plc, an upstream company with onshore interests in Italy and Morocco, where he was a Non-Executive Director from 2011-2015 and Chairman from 2012-2014.

Hywel John – Chief Financial Officer (appointed 20 March 2017)

Hywel has 30 years of experience in the industry. He is a qualified chartered accountant with significant public company board level experience having served as CEO of Bayfield Energy, CFO of Candax Energy, a TSX listed company and Company Secretary / Legal and Commercial Director at Burren Energy.

Martin Ruscoe – Non-executive Director (appointed 9 February 2016)

Martin 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. Martin then spent 12 years with Charterhouse Securities who were voted number one in the small cap market and then spent 6 years with Seymour Pierce, at the time, the largest AIM Broker in London. He has vast experience and has overseen more than 200 institutional fund raisings including new listings, placings and rights issues. He currently holds the following Non-Executive Director positions: London Oil & Gas, Modular Airspace Systems, London Group plc and the Company. Following the investments by LOG into the Group, Martin is the appointed LOG Board representative pursuant to the execution of the LOG loan agreements.

Andrew Hay – Non-executive Director (appointed 29 July 2016)

Andrew is currently a senior adviser to Edmond de Rothschild in London. Between 1999 and 2014 Andrew ran the corporate finance team at Edmond de Rothschild Securities, specialising in public and private company M&A transactions and capital raising. Prior to this, Andrew held senior positions at both Schroders and ING Barings. Until recently, a senior independent director at Aminex plc, the London Stock Exchange listed East African focused production and development company, Andrew was on the Aminex audit and remuneration committees. Andrew is the Senior Independent Director and chairs the Company's Audit Committee.

The Rt. Hon. Charles Hendry – Non-executive Director (appointed 20 March 2017)

Charles Hendry was Minister of State for Energy from May 2010 until September 2012. Since leaving ministerial office he has undertaken a wide range of roles, including as President of the British Institute of Energy Economics, chair of the Forewind Consortium from 2013-2015, and in 2016 he was appointed by the UK Government to lead a review into the strategic case for tidal lagoons and their role in the UK energy mix. Charles Hendry is a nominee of London Oil and Gas Limited, a committed funding partner of IOG.

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 both non-executive directors and consultants.

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 personnel 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 Notes 4 and 16 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 monthly cash flow reporting to enable the Board to monitor the performance of the Group and the adoption and review of a detailed annual operating plan for the Group.

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 and the Rt. Hon. Charles Hendry are the Board appointed representatives from LOG.

Audit Committee

The Audit Committee comprises Andrew Hay (Chairman), the Rt. Hon. Charles Hendry 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. 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 & Nomination Committee

The Remuneration Committee comprises Mark Routh (Interim Chairman), Andrew Hay, the Rt. Hon. Charles Hendry 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.

Bribery Act Policy

Company policy is to conduct all its business in an honest and ethical manner. The Company and Group apply 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
25 May 2017

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” or “MMBbls”	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 6,600km^2. 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;
“TCF” or “tcf”	trillion (10^{12}) standard cubic feet; 1 tcf is approximately equal to 172.4 MMBoe or 23.6 million tonnes of oil equivalent, using a factor of 5.8 BCF per MMBbls;
“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 2016. All amounts are shown in Pounds Sterling, unless otherwise stated.

The Company has its headquarters in London and its oil and gas interests are 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 4.

Dividend

The Directors do not recommend the payment of a dividend (2015: £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 4.

Directors and their Interests

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

Mark Routh
Peter Young (resigned 20 March 2017)
Marie-Louise Clayton (resigned 9 February 2016)
Michael Jordan (resigned 1 September 2016)
Paul Murray (resigned 29 July 2016)
Martin Ruscoe (appointed 9 February 2016)
David Peattie (appointed 29 July 2016, resigned 20 March 2017)
Andrew Hay (appointed 29 July 2016)
Andrew Hockey (appointed 20 March 2017)
Rt. Hon. Charles Hendry (appointed 20 March 2017)
Hywel John (appointed 20 March 2017)

Directors' biographies and committee memberships are set out on page 16.

The Group has provided the directors with third party indemnity insurance of £10,000 (2015 - £11,000).

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 2016**	**At 31 December 2015**
Mark Routh	4,303,010	4,303,010
Peter Young	13,831,725	13,831,725

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 4.

Financial Instruments

Information on financial instruments can be found in Note 19 to the financial statements.

Related Parties

Information on related party transactions can be found in Note 21 to the financial statements.

Subsequent Events

Information on subsequent events can be found in Note 22 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 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, 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

Hywel John
Director
25 May 2017

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 (the 'Company') for the year ended 31 December 2016 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, for the 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. As fully 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 Company's affairs as at 31 December 2016 and of the Group's loss for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the Company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Emphasis of Matter – Going Concern

In forming our opinion on the financial statements which is not modified, we have considered the adequacy of the disclosures made in Note 1 to the financial statements concerning the Group's ability to continue as a going concern. The Group's cash flow projections indicate further funding is required as well as existing creditors agreeing to changes in contractual terms to enable the Group to meet its liabilities as they fall due in the next 12 months, and these arrangements are not yet in place. In the absence of such arrangements these conditions indicate the existence of a material uncertainty which may cast significant doubt as to the Group's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the entity was unable to continue as a going concern.

Independent Auditor’s Report (continued)

Opinion on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit: -

- 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; and
- the Strategic Report and Directors’ Report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the Group and the Company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report or the Directors’ Report.

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 Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the 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.

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

25 May 2017

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

Consolidated Statement of Comprehensive Income

	Notes	2016 £000	2015 £000
Other administration expense		(279)	(833)
(Impairment)/impairment reversal of oil and gas properties	8	(20,013)	6,169
Impairment of creditors		307	-
Exploration costs written off		(712)	(10)
Net gain on settlement of liabilities		458	-
Foreign exchange loss		(299)	(65)
Operating (loss)/profit	3	**(20,538)**	**5,261**
Finance (expense)/gain	5	(899)	61
(Loss)/profit for the year before taxation		**(21,437)**	**5,322**
Taxation	6	**-**	**-**
Loss and total comprehensive (loss)/profit for the year attributable to equity holders of the parent	7	**(21,437)**	**5,322**
(Loss)/profit for the year per ordinary share – basic	7	**(23.2p)**	**7.4p**
(Loss)/profit for the year per ordinary share – diluted	7	**(23.2p)**	**6.5p**

The loss for the year (2015: profit for the year) arose from continuing operations.

The Notes on pages 33 to 61 form part of these financial statements.

Consolidated and Company Statements of Changes in Equity

	Share capital	Share premium	Share-based payment reserve	Accumulated losses	Total equity
Group	**£000**	**£000**	**£000**	**£000**	**£000**
At 1 January 2015	692	17,163	1,754	(13,629)	5,980
Profit for the year	-	-	-	5,322	5,322
Total comprehensive income attributable to owners of the parent	-	-	-	5,322	5,322
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
At 31 December 2015	**787**	**17,649**	**3,347**	**(8,307)**	**13,476**
Loss for the year	-	-	-	(21,437)	(21,437)
Total comprehensive expense attributable to owners of the parent	-	-	-	(21,437)	(21,437)
Settle creditors via issue of shares	208	2,181	-	-	2,389
Issue of warrants	-	-	31	-	31
Lapse/exercise of warrants	58	630	(186)	186	688
Issue of share options	-	-	513	-	513
Lapse/exercise of share options	40	-	(820)	820	40
At 31 December 2016	**1,093**	**20,460**	**2,885**	**(28,738)**	**(4,300)**
Company					
At 1 January 2015	692	17,163	1,754	(13,629)	5,980
Profit for the year	-	-	-	5,667	5,667
Total comprehensive income	-	-	-	5,667	5,667
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
At 31 December 2015	**787**	**17,649**	**3,347**	**(7,962)**	**13,821**
Profit for the year	-	-	-	1,784	1,784
Total comprehensive income	-	-	-	1,784	1,784
Settle creditors via issue of shares	208	2,181	-	-	2,389
Issue of warrants	-	-	31	-	31
Lapse/exercise of warrants	58	630	(186)	186	688
Issue of share options	-	-	513	-	513
Lapse/exercise of share options	40	-	(820)	820	40
At 31 December 2016	**1,093**	**20,460**	**2,885**	**(5,172)**	**19,266**

Share capital - Amounts subscribed for share capital at nominal value.
Share premium - Amounts received on the issue of shares, more than the nominal value of the shares.
Share-based payment reserve - Amounts reflecting fair value of options and warrants issued.
Accumulated losses - Cumulative net losses recognised in the Statement of Comprehensive Income net of amounts recognised directly in equity.
The Notes on pages 33 to 61 form part of these financial statements.

Consolidated Statement of Financial Position

Company Number: 07434350

	Notes	2016 £000	2015 £000
Non-current assets			
Intangible assets: exploration & evaluation	8	5,825	14,818
Intangible assets: other	8	2	-
Property, plant and equipment: development & production	9	7,506	-
Property, plant and equipment: other	9	24	-
		13,357	**14,818**
Current assets			
Other receivables and prepayments	13	285	1,493
Cash and cash equivalents	17	247	23
		532	**1,516**
Total assets		**13,889**	**16,334**
Current liabilities			
Loans	14	(4,076)	(1,460)
Trade and other payables	14	(5,782)	(1,105)
		(9,858)	**(2,565)**
Non-current liabilities			
Loans	15	(4,733)	-
Trade and other payables	15	-	(293)
Provisions	15	(3,598)	-
		(8,331)	**(293)**
Total liabilities		**(18,189)**	**(2,858)**
NET (LIABILITIES)/ASSETS		**(4,300)**	**13,476**
Capital and reserves			
Called-up equity share capital	16	1,093	787
Share premium account	16	20,460	17,649
Share-based payment reserve		2,885	3,347
Accumulated losses		(28,738)	(8,307)
		(4,300)	**13,476**

The financial statements were approved and authorised for issue by the Board of Directors on 25 May 2017 and were signed on its behalf by:

Hywel John
Director

The Notes on pages 33 to 61 form part of these financial statements.

Company Statement of Financial Position

Company Number: 07434350	Notes	2016 £000	2015 £000
Non-current assets			
Intangible assets	8	2	-
Property, plant and equipment	9	24	-
Investments	11	14,514	10,507
Amounts due from subsidiaries	11	10,125	2,908
		24,665	**13,415**
Current assets			
Other receivables and prepayments	13	80	1,493
Cash and cash equivalents	17	247	23
		327	**1,516**
Total assets		**24,992**	**14,931**
Current liabilities			
Trade and other payables	14	**(5,726)**	**(1,086)**
Non-current liabilities			
Trade and other payables	15	**-**	**(24)**
Total liabilities		**(5,726)**	**(1,110)**
NET ASSETS		**19,266**	**13,821**
Capital and reserves			
Called-up equity share capital	16	1,093	787
Share premium account	16	20,460	17,649
Share-based payment reserve		2,885	3,347
Accumulated losses		(5,172)	(7,962)
		19,266	**13,821**

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 £1,784,000 (2015: £5,667,000).

The financial statements were approved and authorised for issue by the Board of Directors on 25 May 2017 and were signed on its behalf by: -

Hywel John
Director

The Notes on pages 33 to 61 form part of these financial statements.

Consolidated Cash Flow Statement

	Notes	2016 £000	2015 £000
(Loss)/profit for the year		(21,437)	5,322
Adjustments for:			
Depreciation and amortisation	8,9	4	-
Impairment of intangible oil and gas assets	8	20,013	(6,169)
Impairment of creditors		(307)	-
Gain on settlement of liabilities	3	(73)	-
Share based payments	3	206	321
Movement in trade and other receivables		(146)	(136)
Movement in trade and other payables		(853)	187
Interest and financing fees	5	899	123
Impairment/(gain on) of derivative financial assets		-	(204)
Foreign exchange loss	3	299	65
Net cash used in operating activities		**(1,395)**	**(491)**
Cash flows from investing activities			
Purchase of intangible oil and gas assets		(3,784)	(494)
Purchase of intangible assets – other	8	(3)	-
Purchase of PP&E - other	9	(30)	-
Acquisitions	10	(2,834)	-
Net cash used in investing activities		**(6,651)**	**(494)**
Cash flows from financing activities			
Proceeds from issue of ordinary shares	16	728	345
Costs of share issue		-	(10)
Net proceeds from loans received/(repaid)		7,542	(237)
Amounts received for derivative financial instruments		-	512
Net cash generated from financing activities		**8,270**	**610**
Increase/(decrease) in cash and cash equivalents in the year		224	(375)
Cash and cash equivalents at start of year		23	398
Cash and cash equivalents at end of year	17	**247**	**23**

The Notes on pages 33 to 61 form part of these financial statements.

Company Cash Flow Statement

	Notes	2016 £000	2015 £000
Profit for the year		1,784	5,667
Adjustments for:			
Depreciation, depletion and amortisation	8,9	4	-
Impairment/(impairment reversal) of investments in and amounts due from subsidiaries	11	(2,085)	(6,169)
Gain on settlement of liabilities	3	(73)	-
Recharges to subsidiary for management and technical services		-	(200)
Share-based payment charges	3	206	321
Movement in trade and other receivables		1,413	(136)
Movement in trade and other payables		(689)	184
Interest and financing fees		-	22
Foreign exchange loss		(5)	(204)
Net cash used in operating activities		**555**	**(515)**
Cash flows from investing activities			
Purchase of intangible assets	8	(3)	
Purchase of property, plant and equipment	9	(30)	-
Amounts loaned to subsidiaries		(7,396)	(470)
Amounts paid to acquire subsidiary		(1,172)	
Net cash used in investing activities		**(8,601)**	**(470)**
Cash flows from financing activities			
Proceeds from issue of ordinary shares		728	345
Costs of share issue		-	(10)
Net proceeds from loans received/(repaid)		7,542	(237)
Amounts received for derivative financial instruments		-	512
Net cash generated from financing activities		**8,270**	**610**
Increase/(decrease) in cash and cash equivalents in the year		224	(375)
Cash and cash equivalents at start of year		23	398
Cash and cash equivalents at end of year	17	**247**	**23**

The Notes on pages 33 to 61 form part of these financial statements.

Notes Forming Part of the Financial Statements

1 Accounting policies

General information

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 2016 were authorised for issue by the Board of Directors on 25 May 2017 and the balance sheets were signed on the Board's behalf by the CFO, Hywel John.

Basis of preparation and accounting

The principal accounting policies adopted in the preparation of the financial statements are set out below. The policies have been consistently applied to all years presented, unless otherwise stated. The consolidated financial statements are presented in GBP Sterling, which is also the functional currency of the Company and its subsidiaries. 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 IFRSs 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 41.

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 39.

Going concern

The Board has reviewed the Group's cash flow forecasts up until December 2018 having regard to its current financial position and operational objectives. These forecasts indicate that the Group will need additional funding to enable it to meet its liabilities as they fall due in the next twelve months. The Board is satisfied that the Group will have sufficient financial resources available to meet its commitments based on the amount of available cash within the Group, its existing debt facilities that can be drawn down, the likelihood of it being able to secure additional funding from existing shareholders or new investors and to agree either the rescheduling of certain existing liabilities to creditors or conversion of such amounts to equity. Additionally, the Group can cut discretionary expenditure and reduce headcount to reduce financing requirements further. Accordingly, the Board continue to adopt the going concern basis for the preparation of these financial statements.

However, at the date of approval of these financial statements there are no legally binding agreements in place relating for either fundraising or the deferral or settlement of existing creditors through equity issues. There can be no certainty that additional funds will be forthcoming or the creditors will agree to changes in contractual terms and these conditions indicate the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern and therefore it may be unable to realise its assets and discharge its liabilities in the normal course of business. The financial statements do not include the adjustments that would result if the Group was unable to continue as a going concern.

1 **Accounting policies** (continued)

New and revised 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**
IFRS 15	Revenue from contracts with customers	1 January 2018
IFRS 9	Financial instruments	1 January 2018
IFRS 16	Leases	1 January 2019
IAS 12	Recognition of deferred tax assets for unrealised losses (amendments)	1 January 2017
IAS 7	Disclosure initiative (amendments)	1 January 2017
IFRS 15	Clarifications to IFRS 15 – revenue from contracts with customers	1 January 2018
IFRS 2	Classification and measurement of share-based payment transactions (amendments)	1 January 2018
Annual improvements to IFRSs	2012-2014 cycle	1 January 2017 and 1 January 2018
IFRIC 22	Foreign currency transactions and advance consideration	1 January 2018

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

IFRS9 introduces significant changes to the classification and measurement requirements for financial instruments. Management are currently assessing the impact of this standard on the consolidated and Company statement of financial positon.

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 most its 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; and
- 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. During the year, the Company acquired Oyster Petroleum Limited and the results of this Group subsidiary are included from the date that control commenced, being 28 October 2016.

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.

Business Combinations

The Company uses the acquisition method of accounting to account for business combinations. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured at their fair values at the acquisition date.

Business combinations requires the excess (or shortfall) of the purchase price of acquisitions over the net book value of assets acquired to be allocated to the assets and liabilities of the acquired entity. The Company makes judgements and estimates in relation to the fair value allocation of the purchase price.

The fair value exercise is performed at the date of acquisition. Owing to the nature of fair value assessments in the oil and gas industry, the purchase price allocation exercise and acquisition-date fair value determinations require subjective judgements based on a wide range of complex variables at a point in time. Management uses all available information to make these fair value determinations.

In determining fair value for the acquisition, the Company has utilised valuation methodologies including discounted cash flow analysis. The assumptions made in performing these valuations include assumptions as to discount rates, foreign exchange rates, commodity prices, the timing of developments, capital costs and future operating costs. Any significant change in key assumptions may cause the acquisition accounting to be revised. Acquisition related expenses may be included in the underlying cost of investment.

1 Accounting policies (continued)

Revenue

Sales of oil and gas are recognised, net of any sales taxes, when risks and rewards of ownership have passed to the customer, typically, this is at the point of physical lifting. Royalties and tariff income, if applicable, are recognised as earned on an entitlement basis.

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-Licence

Expenditure incurred prior to the acquisition and/or award of a licence interest is expensed to the Statement of Comprehensive Income as exploration costs written off.

2) Exploration and evaluation ('E&E')
Capitalisation

Costs incurred after rights to explore have been obtained, such as geological and geophysical surveys, drilling and commercial appraisal costs, and other directly attributable costs of exploration and appraisal including technical and administrative costs, are capitalised as intangible exploration and evaluation ('E&E') assets. The assessment of what constitutes an individual E&E asset is based on technical criteria but essentially either a single licence area or contiguous licence areas with consistent geological features are designated as individual E&E assets. Costs relating to the exploration and evaluation of oil and gas interests are carried forward until the existence, or otherwise, of commercial reserves have been determined.

E&E costs are not amortised prior to the conclusion of appraisal activities. Once active exploration is completed the asset is assessed for impairment. If commercial reserves are discovered then the carrying value of the E&E asset is reclassified as a development and production ('D&P') asset, within property, plant and equipment ('PPE'), following development sanction by the Board, but only after the carrying value is assessed for impairment at point of transfer and, where appropriate, its carrying value adjusted. Following development sanction by the Board a Field Development Plan ('FDP') may be submitted. If it is subsequently assessed that commercial reserves have not been discovered, the E&E asset is written off to the Statement of Comprehensive Income. The Group's definition of commercial reserves for such purpose is proven and probable reserves on an entitlement basis. On commencement of production, the D&P asset is amortised on a unit-of-production ('UOP') basis over the life of the commercial reserves of the asset to which they relate.

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.

1 Accounting policies (continued)

Oil and gas interests (continued)

Impairment

The Group's oil and gas assets are analysed into cash generating units ('CGU') for impairment reporting purposes, with E&E asset impairment testing being performed at an individual asset level. E&E assets are reviewed for impairment when circumstances arise which indicate that the carrying value of an E&E asset exceeds the recoverable amount. The recoverable amount of the individual asset is determined as the higher of its fair value less costs to sell and value in use. Impairment losses resulting from an impairment review are separately recognised and written off to the Statement of Comprehensive Income.

Impaired assets are reviewed annually to determine whether any substantial change to their fair value amounts previously impaired would require reversal.

A previously recognised impairment loss is reversed if the recoverable amount increases because of a change in the estimates used to determine the recoverable amount, but not to an amount higher than the carrying amount that would have been determined (net of depletion or amortisation) had no impairment loss been recognised in prior periods. Reversal of impairments and impairment charges are credited/(charged) to a separate line item within the Statement of Comprehensive Income.

Development and production ('D&P')

Capitalisation

Costs of bringing a field into production, including the cost of facilities, wells and sub-sea equipment together with E&E assets reclassified in accordance with the above policy, are capitalised as a D&P asset within property, plant and equipment. Normally each individual field development will form an individual D&P asset but there may be cases, such as phased developments, or multiple fields around a single production facility when fields are grouped together to form a single D&P asset.

Depreciation and depletion

All costs relating to a development are accumulated and not depreciated until the commencement of production. Depreciation is calculated on a UOP basis based on the proven and probable reserves of the asset. Any re-assessment of reserves affects the depreciation rate prospectively. Significant items of plant and equipment will normally be fully depreciated over the life of the field; however, these items are assessed to consider if their useful lives differ from the expected life of the D&P asset and should this occur a different depreciation rate may be charged. The key areas of estimation regarding depreciation and the associated unit of production calculation for oil and gas assets are recoverable reserves and future capital expenditures.

Impairment

A review is carried out for any indication that the carrying value of the Group's D&P assets may be impaired. The impairment review of D&P assets is carried out on an annual, asset by asset basis and involves comparing the carrying value with the recoverable value of an asset. The recoverable amount of an asset is determined as the higher of its fair value less costs to sell and value in use. The value in use is determined from estimated future net cash flows, being the present value of the future cash flows expected to be derived from production of commercial reserves. Impairment resulting from the impairment testing is charged to a separate line item within the Statement of Comprehensive Income.

The pre-tax future cash flows are adjusted for risks specific to the CGU and are discounted using a pre-tax discount rate. The discount rate is derived from the Group's post-tax weighted average cost of capital and is adjusted where applicable to consider any specific risks relating to the country where the CGU is located, although other rates may be used if appropriate to the specific circumstances. The discount rates applied in assessments of impairment are reassessed each year. The Company uses a risk adjusted discount rate of 10%, unless otherwise stated.

The CGU basis is generally the field, however, oil and gas assets, including infrastructure assets may be accounted for on an aggregated basis where such assets are economically inter-dependent.

1 Accounting policies (continued)

Assets other than oil and gas interests

Assets other than oil and gas interests are stated at cost, less accumulated depreciation and any provision for impairment. Depreciation is provided at rates estimated to write off the cost, less estimated residual value, of each asset over its expected useful life as follows: -

Computer and office equipment: 33% straight line, with one full year's depreciation in year of acquisition; and Tenants improvements: 20% straight line, with one full year's depreciation in year of acquisition.

Decommissioning

Provisions for decommissioning costs are recognised in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets. Provisions are recorded at the present value of the expenditures expected to be required to settle the Group's future obligations.

Provisions are reviewed at each reporting date to reflect the current best estimate of the cost at present value. Any change in the date on which provisions fall due will change the present value of the provision. These changes are treated as an administration expense. The unwinding of the discount is reflected as a finance expense.

In the case of a D&P asset, a decommissioning asset is also established, since the future cost of decommissioning is regarded as part of the total investment to gain access to future economic benefits, and included as part of the cost of the relevant development and production asset. Depletion on this asset is calculated under the UOP method based on commercial reserves.

Disposals

Net proceeds from any disposal of an E&E 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 D&P assets are credited against the previously capitalised cost of that asset and any surplus proceeds are credited to the Statement of Comprehensive Income.

Foreign currencies

The functional and presentation currency of the Group and the Company is GBP 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.

Taxation

Current Tax

Tax is payable based upon taxable profit for the year. Taxable profit differs from net profit as reported in the Statement of Comprehensive Income because it excludes items of income or expense that are taxable or deductible on other years and it further excludes items that are never taxable or deductible. Any Group liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the reporting date.

Deferred Tax

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

1 Accounting policies (continued)

Taxation (continued)

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in Joint Ventures, except where the Group can control the reversal of the temporary differences and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the Statement of Comprehensive Income, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity. Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

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.

Investments & Loans (Company)

Non-current investments in subsidiary undertakings are shown in the Company's Statement of Financial Position at cost less any provision for permanent diminution of value.

Loans to subsidiary undertakings are stated at amortised cost. Provisions are made for any impairment in value.

Operating Leases

Rentals under operating leases are charged on a straight-line basis over the lease term.

Financial instruments

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.

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.

Financial liabilities

Financial liabilities are classified per the substance of the contractual arrangements entered.

1 Accounting policies (continued)

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, as necessary. The fair value of the equity component is included in equity and is 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. Interest is expensed to the Statement of Comprehensive Income.

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

The Company and Group have applied the requirements of IFRS 2 Share-based payments. The Company issues equity share-based payments to certain employees, to incentivise and reward successful corporate performance. The fair value of these awards has been determined at the date of the grant of the award allowing for the effect of any market-based performance conditions. This fair value, adjusted by the estimate of the number of awards that will eventually vest because of non-market conditions, is expensed uniformly over the vesting period and is charged to the Statement of Comprehensive Income, together with an increase in equity reserves, over a similar period. The fair values are calculated using an option pricing model with suitable modifications to allow for employee turnover before vesting and early exercise. The inputs to the model include: the share price at the date of grant; exercise price; expected volatility; expected dividends; risk-free rate of interest; and patterns of exercise of the plan participants. Where the terms and conditions of options are modified before they vest, the increase in the fair value of the options, measured immediately before and after the modification, is also charged to the Statement of Comprehensive Income over the remaining vesting period. No expense is recognised for options that do not ultimately vest except where vesting is only conditional upon a market condition.

Where equity instruments are used to settle liabilities, 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.

Loss/earnings per share

Loss/earnings 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.

1 **Accounting policies** (continued)

Critical accounting judgements and key sources of estimation uncertainty

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 clear from other sources. Actual results may differ from these estimates.

Key areas of estimation uncertainty are:

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 16 for further details of these assumptions.

Investments (Company)

If circumstances indicate that impairment may exist, investments in subsidiary undertakings of the Company are evaluated using market values, where available, or the discounted expected future cash flows of the investment. If these cash flows are lower than the Company's carrying value of the investment, an impairment charge is recorded in the Company. Evaluation of impairments on such investments involves significant management judgement and may differ from actual results - see Note 11.

Commercial Reserves

Commercial reserves are proven and probable oil and gas reserves, calculated on an entitlement basis. Estimates of commercial reserves underpin the calculation of depletion and amortisation on a UOP basis. Estimates of commercial reserves include estimates of the amount of oil and gas in place, assumptions about reservoir performance over the life of the field and assumptions about commercial factors which, in turn, will be affected by the future oil and gas price.

Impairment of assets

Management is required to assess oil and gas assets for indicators of impairment and has considered the economic value of individual E&E and D&P assets. The carrying value of oil and gas assets is disclosed in Notes 8 and 9. The carrying value of related investments in the Company Statement of Financial Position is disclosed in Note 11. Exploration and evaluation assets are subject to a separate review for indicators of impairment, by reference to the impairment indicators set out in IFRS 6, which is inherently judgmental.

1 Accounting policies (continued)

Critical accounting judgements and key sources of estimation uncertainty (continued)

Key assumptions used in the value-in-use calculations

The calculation of value-in-use for oil and gas assets under development or in production is most sensitive to the following assumptions:

- production volumes;
- commodity prices;
- fixed and variable operating costs;
- capital expenditure; and
- discount rates.

Production volumes/recoverable reserves

Annual estimates of oil and gas reserves are generated internally by the Group with external input from operator profiles. These are reported annually to the Board. The self-certified estimated future production profiles are used in the life of the fields which in turn are used as a basis in the value-in-use calculation.

Commodity prices

An average of published forward prices and the long-term assumption for natural gas and Brent oil are used for future cash flows in accordance with the Group's corporate assumptions. Field specific discounts and prices are used where applicable.

Fixed and variable operating costs

Typical examples of variable operating costs are pipeline tariffs, treatment charges and freight costs. Commercial agreements are in place for most of these costs and the assumptions used in the value-in-use calculation are sourced from these where available. Examples of fixed operating costs are platform costs and operator overheads. Fixed operating costs are based on operator budgets.

Capital expenditure

Field development is capital intensive and future capital expenditure has a significant bearing on the value of an oil and gas development asset. In addition, capital expenditure may be required for producing fields to increase production and/or extend the life of the field. Cost assumptions are based on operator budgets or specific contracts where available. The Company and Group were not exposed to development capital expenditures in the year.

Discount rates

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 risk specific to the field for which future estimated cash flows have not been adjusted. The Group has applied a risk adjusted discount rate of 10% for the current year (2015: 10%).

Sensitivity to changes in assumptions

A potential change in any of the above assumptions may cause the estimated recoverable value to be lower than the carrying value, resulting in an impairment loss. The assumptions which would have the greatest impact on the recoverable amounts of the fields are production volumes and commodity prices.

1 Accounting policies (continued)

Critical accounting judgements and key sources of estimation uncertainty (continued)

Decommissioning

The Company has obligations in respect of decommissioning the Vulcan Satellites' E&E asset. The extent to which a provision is recognised depends on the legal requirements at the date of decommissioning, the estimated costs and timing of the work and the discount rate applied. A full decommissioning estimate for the Vulcan Satellites' asset remains uncertain until all development infrastructure has been installed and production volumes and time to abandonment has been considered. Prior to full development infrastructure and commissioning, the Group will utilise technical reports to estimate costs of abandonment.

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 based upon 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 (loss)/profit

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

	2016 £000	2015 £000
Fees payable to the Company's auditor:		
for the audit of the Company's and Group's financial statements	40	28
Depreciation, depletion and amortisation	4	-
Exploration costs written off	712	10
Net impairment/(impairment reversal) of oil and gas properties	20,013	(6,169)
Impairment of creditors	(307)	-
Personnel costs	399	247
Personnel costs - share-based payments	206	321
Net gain on settlement of liabilities	(458)	-
Foreign exchange loss	299	65

4 Staff costs and directors' remuneration

During the year, the average number of personnel for both the Company and Group was: -

	2016 Number	2015 Number
Management/operational	13	10
Directors	5	5

Personnel costs	**£000**	£000
Wages, salaries and fees	645	301
Social security costs	49	21
Share-based incentives	358	321
	1,052	**643**

An amount of £448,000 has been capitalised in exploration and evaluation assets relating to the personnel costs.

No pension plans are provided for directors nor staff. Key management personnel are deemed to be directors.

Directors' remuneration	**Salary**	**Share-based incentives**	**2016 Total**	**Salary**	**Share-based incentives**	2015 Total
	£000	**£000**	**£000**	**£000**	**£000**	£000
Mark Routh	59	139	198	106	156	262
Peter Young	141	22	163	124	63	187
Marie-Louise Clayton[1]	-	13	13	9	19	28
Michael Jordan[2]	10	15	25	20	10	30
Paul Murray[3]	-	29	29	10	17	27
David Peattie[4]	-	6	6	-	-	-
Martin Ruscoe[5]	-	15	15	-	-	-
Andrew Hay[6]	-	3	3	-	-	-
	210	**242**	**452**	**269**	**265**	**534**

[1] Marie-Louise Clayton resigned on 9 February 2016;
[2] Michael Jordan resigned on 31 August 2016;
[3] Paul Murray resigned on 29 July 2016;
[4] David Peattie was appointed on 29 July 2016;
[5] Martin Ruscoe was appointed on 9 February 2016;
[6] Andrew Hay was appointed on 29 July 2016.

The share-based incentive amounts represent the fair value of options issued on both 1 March 2016 and 1 September 2016 in lieu of cash salary and/or director fees.

4 Staff costs and directors' remuneration (continued)

Social security costs for the year for key management personnel were £39,000 (2015 - £21,000).

The service agreements for Mark Routh, Peter Young, David Peattie, Martin Ruscoe and Andrew Hay provide that only a proportion of the full contractual amount will be paid with the balance to be settled in share options granted.

The proportions paid in 2016 were 30% for Mark Routh, 94% for Peter Young, 50% for Michael Jordan and 0% for each of Marie-Louise Clayton, Paul Murray, David Peattie, Martin Ruscoe and Andrew Hay. For each six-month interval, ending on 28 (or 29) February and 31 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 31 December 2016 to which these terms relate totalled £91,000 (31 December 2015 – £83,000) for directors and £36,000 (2015 - £81,000) for other personnel and were subsequently settled in share options on 1 March 2017.

Share option exercise transactions for Marie-Louise Clayton and Michael Jordan were made following their departure from the Board; however, for completeness, these are included in the table below.

4 Staff costs and directors' remuneration (continued)

Directors' interests in options on 1p ordinary shares of the Company at 31 December 2016 were as follows:

	Granted	Total 31 Dec 2015	Awarded / (Exercised) in 2016	Total 31 Dec 2016	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
	1 Mar 2016	-	888,494	888,494	1p	28 Feb 2021
	1 Sep 2016	-	365,550	365,550	1p	31 Aug 2021
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
	1 Mar 2016	-	240,393	240,393	1p	28 Feb 2021
	1 Sep 2016	-	34,270	34,270	1p	31 Aug 2021
Marie-Louise Clayton[1]	23 Sept 2013	570,000	(570,000)	-	1p	30 Sept 2018
	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
	1 Mar 2016	-	168,742 (168,742)	-	1p	28 Feb 2021
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
	1 Mar 2016	-	96,157 (96,157)	-	1p	28 Feb 2021
	1 Sep 2016	-	39,562	39,562	1p	31 Aug 2021
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 Mar 2016	-	192,315 (192,315)	-	1p	28 Feb 2021
	29 Jul 2016	-	103,462 (103,462)	-	1p	28 Jul 2021
David Peattie	1 Sep 2016	-	22,861	22,861	1p	31 Aug 2021
Martin Ruscoe	1 Sep 2016	-	79,558	79,558	1p	31 Aug 2021
Andrew Hay	1 Sep 2016	-	11,430	11,430	1p	31 Aug 2021

[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"). All LTIPs expired on 30 September 2016 and no options vested as none of the conditions set by the Remuneration Committee were met.

The Company paid £10,000 for Directors and Officers Liability insurance during the year (2015: £11,000).

5 Finance expense/(gain)

	2016 **£000**	2015 £000
Interest on loans	489	123
Fair value of warrants issued	31	-
Amortisation of loan finance charges	339	-
Current year loan finance charges	40	20
Gain on derivative financial asset	-	(204)
	899	(61)

6 Taxation

a) Current taxation

There was no tax charge during the year as the Group loss was not chargeable to corporation tax. 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:

	2016 **£000**	2015 £000
(Loss)/profit for the year	(21,437)	5,322
Income tax expense	-	-
(Loss)/profit before income taxes	(21,437)	5,322
Expected tax (credit)/charge based on the standard rate of United Kingdom corporation tax at the domestic rate of 40% (2015: 40%)	(8,575)	2,129
Expenses not deductible for tax purposes	-	100
Expense/(income) not taxable/allowable	7,994	(2,498)
Unrecognised taxable losses carried forward	581	269
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 £32,864,000 (2015: £693,000). This includes a figure of £20,788,000 on acquisition of Oyster Petroleum Limited. A deferred tax asset will only be created if there is reasonable certainty that profits will be earned in the foreseeable future.

7 (Loss)/profit per share

	2016 £000	2015 £000
(Loss)/profit for the year attributable to shareholders	(21,437)	5,322
Weighted average number of ordinary shares	92,489,621	71,510,947
Weighted average number of ordinary shares – diluted basis	134,400,703	81,608,317
(Loss)/profit per share in pence - undiluted	(23.2p)	7.4p
(Loss)/profit per share in pence – diluted	(23.2p)	6.5p

Diluted loss 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 2016 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 subsequently issued on 1 March 2017 has been to increase the weighted average number of ordinary shares on a diluted basis to 135,305,802.

8 Intangible assets

Group

	Exploration & evaluation assets	Company & IT software assets	Total	Exploration & evaluation assets
	2016 £000	2016 £000	2016 £000	2015 £000
At cost				
At beginning of the year	16,903	-	16,903	15,767
Additions	11,331	3	11,334	1,136
Blythe asset acquisition (note 10)	1,662	-	1,662	-
Vulcan satellites asset acquisition (note 10)	5,533	-	5,533	-
Reclassified as Development & Production assets	(7,506)	-	(7,506)	-
At end of the year	27,923	3	27,926	16,903
Impairments and write-downs				
At beginning of the year	(2,085)	-	(2,085)	(8,254)
DD&A	-	(1)	(1)	-
Impairment reversal/(impairment)	(20,013)	-	(20,013)	6,169
At end of the year	(22,098)	(1)	(22,099)	(2,085)
Net book value				
At 31 December	**5,825**	**2**	**5,827**	**14,818**
At 1 January	**14,818**	**-**	**14,818**	**7,513**

8 Intangible assets (continued)

In 2015, following a revised valuation of both the Skipper and Blythe assets, the Skipper impairment of £6,169,000, charged in 2014, was reversed and the gain was taken to the Statement of Comprehensive Income.

The 2016 impairment of £22,098,000 reflects the decision that the Skipper field is no longer commercial.

Exploration & evaluation assets at 31 December 2016 mainly comprise the Group's interest in the Vulcan Satellites, Elgood and Harvey.

Following submission of the Blythe FDP in December 2016, as per the Group's accounting policy, the Blythe asset has been re-categorised as property, plant and equipment. In accordance with IFRS6 and the Group's accounting policy, Blythe has been assessed at the point of transfer and it was determined that based on the project economics; the impairment on Blythe of £2,085,000 originally charged in 2014 should be reversed.

9 Property, plant and equipment

Group	**Development & production assets**	**Company & administration assets**	**Total**	Total
	2016 £000	**2016 £000**	**2016 £000**	2015 £000
At cost				
At beginning of the year	-	-	-	-
Additions	-	30	30	-
Reclassified from E&E assets (see Note 8)	7,506	-	7,506	-
At end of the year	7,506	30	7,536	-
Accumulated depreciation				
At beginning of the year	-	-	-	-
DD&A	-	(6)	(6)	-
At end of the year	-	(6)	(6)	-
Net book value				
At 31 December	**7,506**	**24**	**7,530**	**-**
At 1 January	**-**	**-**	**-**	**-**

10 Asset Acquisitions

During the year, the Group had the following significant asset acquisition transactions.

Vulcan Satellites

On 28 October 2016, the Company announced the completion of the acquisition of Oyster Petroleum Limited comprising the Vulcan Satellites. This has been accounted for as an asset acquisition given the status of the projects held by Oyster Petroleum on the acquisition date. Under the terms of the agreement the Company paid £1 million, plus interim cash adjustments, initial consideration upon completion, with a further £0.75 million payable nine months thereafter. Further payments of £3.25 million are payable upon achievement of certain further milestones which remain contingent and uncertain.

Given the £3.25m is dependent on achievement of future milestones and the transaction is considered an asset acquisition, these amounts have not been recognised in the financial statements. The total assets are recognised at cost which is based on the respective fair values at the acquisition date. The below assets and liabilities were acquired on 28 October 2016.

	£000
Exploration and evaluation assets	5,533
Less:	
Current assets less current liabilities	(13)
Decommissioning provision	(3,598)
Net assets acquired	**1,922**

Blythe

On 21 June 2016, the Company announced the completion of the additional 50% operated stake in the Blythe field, thereby increasing its interest to 100%. The consideration comprised an upfront payment of £1.5 million, plus interim cash adjustments, payable at completion with deferred consideration of a further USD 5.0 million to be paid at first gas. Given the USD 5.0 million is dependent on achievement of future milestones and the transaction is considered an asset acquisition, these amounts have not been recognised in the financial statements.

11 Investments

Company	Shares in Group companies	Loans to Group companies	Total
	£000	£000	£000
At cost			
At 1 January 2015	12,592	3,467	16,059
Additions	-	1,311	1,311
At 31 December 2015	12,592	4,778	17,370
Additions	1,922	7,217	9,139
At 31 December 2016	**14,514**	**11,995**	**26,509**
Impairment			
At 1 January 2015	(8,254)	(1,870)	(10,124)
Impairment reversal	6,169	-	6,169
At 31 December 2015	(2,085)	(1,870)	(3,955)
Impairment reversal	2,085	-	2,085
At 31 December 2016	**-**	**(1,870)**	**(1,870)**
Net book value			
At 1 January 2016	10,507	2,908	13,415
At 31 December 2016	**14,514**	**10,125**	**24,639**

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

In recognition of the 2015 impairment reversal against the carrying value of the Group’s exploration and evaluation assets in 2015 described in Note 8 above, an equivalent impairment reversal of £6,169,000 against the carrying value of the Company’s investment in its subsidiaries was credited to the Company’s Statement of Comprehensive Income.

In the current year, the Directors have reconsidered the economics of the underlying projects held by the subsidiaries including the potential of the exploration projects and consider it appropriate to reverse an impairment of £2,085,000.

The Company's subsidiaries, all registered at 60 Gracechurch Street, London EC3V 0HR, are as follows: -

Directly held	Country of incorporation	Area of operation	%
IOG Infrastructure Limited	United Kingdom	United Kingdom	100
IOG North Sea Limited	United Kingdom	United Kingdom	100
IOG UK Limited	United Kingdom	United Kingdom	100

All three subsidiaries were incorporated in the United Kingdom and are engaged in the business of oil and gas exploration and/or operations in the North Sea. The financial reporting periods for each subsidiary entity are consistent with the Company and end on 31 December.

12 Interests in production licences

All Group UK Offshore Production Licences are held 100% by either IOG North Sea Limited or IOG UK Limited.

13 Receivables and prepayments

	2016	2015
	£000	£000
Group		
VAT recoverable	22	139
Warrants and prepaid costs associated with new loan facilities (Note 16)	-	1,354
Prepayments	43	-
Debtors	20	-
Decommissioning guarantees	200	-
	285	**1,493**
Company		
VAT recoverable	22	139
Warrants and prepaid costs associated with new loan facilities (Note 16)	-	1,354
Prepayments	38	-
Debtors	20	-
	80	**1,493**

14 Current liabilities

	2016	2015
	£000	£000
Group		
Loans	4,076	1,460
Trade payables	5,577	847
Amounts due to joint operation partners	-	63
Accruals	205	195
	9,858	**2,565**
Company		
Trade payables	5,577	847
Amounts due to joint operation partners	-	63
Accruals	149	176
	5,726	**1,086**

Of the Group's loans, £1.99 million was due to Weatherford Technical Services Limited (2015: £1.46 million) and £2.08 million was due to GE Oil & Gas UK Limited (2015: £nil). Following Amendment, No. 6, to the loan agreement, the loan repayable to Weatherford Technical Services Limited was discharged in full on 24 May 2017. The loan due to GE Oil & Gas UK Limited is payable by 31 December 2017.

The interest rate on the Weatherford loan was 12% effective 1 January 2017.

The interest rate on the GE loan is LIBOR + 9%.

15 Non-current liabilities

	2016 £000	2015 £000
Group		
Long term loans	4,733	-
Trade creditors	-	293
Decommissioning provision	3,598	-
	8,331	**293**
Company		
Trade creditors	**-**	**24**

Trade creditors' book value stated at 31 December 2016 equates to fair value.

The balance on both the Group's and the Company's non-current liabilities at 31 December 2015 were written off in 2016 following management's commercial decision to impair in full, the Skipper P1609 licence and field.

On 7 December 2015, loan facilities were announced for £2.75 million and £2.0 million arranged with London Oil and Gas Limited ('LOG') and GE Oil and Gas UK Limited respectively. On 11 December 2015, a further loan was announced for £0.8 million arranged with LOG.

The amounts drawn at 31 December 2016 (excluding accrued interest) were as follows: -

Loan Facility	Amount Drawn
LOG £2.75 million facility	£2.01 million
LOG £0.80 million facility	£0.8 million
GE £2.0 million facility	£2.0 million

There were warrants issued to LOG and GE Oil and Gas UK Limited in respect of the above facilities. The valuation of these warrants is detailed in Note 16 and is amortised over the life of the facilities. Any outstanding non-amortised amount is treated as a prepayment and debited against the loan facility.

On 5 February 2016, a further loan was announced arranged with LOG and provided for £10.0 million of secured convertible debt funding. The loan is secured against the Group's assets and fully convertible at LOG's election into the Company's shares at a conversion price of 8p. It is proposed that the loan would need to be drawn in full within three years of completion and converted into ordinary shares in the Company within 36 months after each drawing.

The balance on the Group's long term loans at 31 December 2016 is represented by drawings of £5,542,000 plus accrued interest of £208,000 on the LOG facilities, less the non-amortised value £1,017,000 of loan finance (which includes the non-amortised amount of warrants as detailed above).

The interest rate on all LOG loans is LIBOR + 9%. This is deemed to be a market rate and hence no equity element has been recognised for the £10.0 million convertible loan.

The Company has obligations in respect of decommissioning the Vulcan Satellites' E&E asset. A full decommissioning estimate for the Vulcan Satellites' asset remains uncertain until all development infrastructure has been installed and production volumes and time to abandonment has been considered. As per Note 1, the current estimate is based upon a recent technical valuation.

16 Equity share capital

	Number	Share capital £000	Share premium £000	Total £000
Allotted, issued and fully paid				
At 1 January 2015				
- Ordinary shares of 1 pence each	69,247,764	692	17,163	17,855
Equity issued	609,500	6	139	145
Equity issued	210,174	2	48	50
Loan settlement 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
2016				
Equity issued	3,961,382	40	-	40
Equity issued	5,777,310	58	630	688
Creditor settlement via issue of shares	20,811,776	208	2,181	2,389
At 31 December 2016				
- Ordinary shares of 1 pence each	**109,268,163**	**1,093**	**20,460**	**21,553**

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.

During 2016, the Company issued 3,961,382 ordinary shares at a subscription price of 1 pence from the exercise of management and other personnel share options.

During 2016, the Company issued 5,777,310 ordinary shares at a subscription price of 11.9p from the exercise of warrants by GE Oil & Gas UK Limited.

During 2016, the Company issued 20,811,776 ordinary shares in lieu of creditor settlement cash payments.

16 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	Date of Grant	Expiry
1 January 2015	12,178,512	13.82p	various	various
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**		
Staff options	2,888,561	1p	1 Mar 2016	28 Feb 2021
Staff options	103,462	1p	29 Jul 2016	31 Aug 2021
Staff options	1,032,499	1p	1 Sep 2016	31 Aug 2021
Options exercised	(3,961,382)			
Options lapsed	(4,500,000)			
31 December 2016	**11,029,143**	**1p**		

All LTIP options, 4,500,000 outstanding at 31 December 2015, expired on 30 September 2016. Accordingly, the fair value of these awards has been transferred from the Share-based Payment Reserve to Accumulated Loss. Of the remaining staff options granted prior to 31 December 2015, 3,117,362 were exercised during 2016. Of those staff options granted during 2016, 844,020 were exercised during 2016.

The remaining staff options, 11,029,143, outstanding at 31 December 2016 have been issued to directors and other personnel under (i) an AIM bonus scheme upon listing of the Company's shares on 30 September 2013 (5,203,946 options) and (ii) as salary sacrifice options issued periodically in lieu of salary (5,825,197 options). Further details for directors are provided in Note 4. All options were issued at an exercise price of 1p per share and carry no additional performance conditions.

The remaining average contractual life of the 11,029,143 share options outstanding at 31 December 2016 (2015 – 15,466,003) was 2.81 years at that date (2015 – 4.56). All such share options were exercisable at 31 December 2016.

The weighted average exercise price of the options remaining was 1.00 pence at 31 December 2016 (2015 – 11.09 pence). No further options have been exercised as at 25 May 2017.

The Company calculates the value of personnel sacrificed share-based compensation as the actual value of sacrificed salary/fees. This is deemed to be the fair value of such awards. The fair value of share options granted in 2016, both received and receivable, is calculated as £358,000 (2015 - £321,000) and this has been fully charged to the Statement of Comprehensive Income. The exercise price was determined as 1p (2015 – 1p).

During 2016, LTIPS awarded to both Mark Routh and Peter Young in September 2013, expired. Accordingly, the fair value of these awards has been transferred from the Share-based Payment Reserve to Accumulated Loss.

16 Equity share capital (continued)

During the year, the Company granted warrants as follows:

	Number	Price	Date of Grant	Expiry
1 January 2015	956,087	31.36p	various	various
Issued to GE Oil and Gas UK Ltd	4,989,122	11.9p	7 Dec 2015	30 Dec 2016
Issued to GE Oil and Gas UK Ltd	788,188	11.9p	29 Dec 2015	30 Dec 2016
Issued to London Oil and Gas Ltd	5,777,310	11.9p	29 Dec 2015	30 Dec 2016
Issued to London Oil and Gas Ltd	7,500,000	8p	29 Dec 2015	31 Dec 2016
31 December 2015	**20,010,707**	**11.37p**		
Issued to Weatherford Technical Services Limited	500,000	8p	29 Mar 2016	31 Mar 2019
Lapsed – Charles Stanley Securities	(630,000)			
Exercised by GE Oil & Gas UK Ltd	(5,777,310)			
31 December 2016	**14,103,397**	**11.29p**		

The fair value of warrants granted in 2015 was calculated as £1,272,000 all of which was recognised and included within the total of deferred/prepaid financing costs and taken to the Share-based Payment Reserve

All 2015 warrants granted to GE Oil & Gas UK Limited were exercised prior to 31 December 2016.

The Company calculates the value of share based compensation using the Black-Scholes option pricing model to estimate the fair value of warrants at the date of grant.

The fair value of warrants granted in 2016 is calculated as £31,000 (2015 - £1,272,000) all of which has been recognised as a current financing cost. The average exercise price was determined as 8 pence (2015 – 10.36 pence).

During 2016, 630,000 warrants awarded to Charles Stanley Securities in September 2013, expired. Accordingly, the fair value of these awards has been transferred from the Share-based Payment Reserve to Accumulated Loss.

The following assumptions were applied in the above calculations

	2016 warrants
Risk free interest rate	1.46%
Dividend yield	nil
Weighted average life expectancy	3 years
Volatility factor	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 on 30 September 2013 until 31 December 2016.

17 Cash and cash equivalents

Group and Company	**2016 £000**	**2015 £000**
Cash at bank	**247**	**23**

18 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 £1,784,000 (2015: £5,667,000).

19 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 to hedge the Group and Company's activities to the exposure to currency risk or interest risk and no derivatives or hedges were entered 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 its 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 financial instruments
- Trade and other payables

19 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. The Board have identified that further funds will be required within the next 12 months and are implementing various courses of action as detailed in the Finance Review to ensure that adequate funding is available.

2016 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	247	-	-	247	247
	247	**-**	**-**	**247**	**247**
Current financial liabilities					
Loans	2,086	2,282	-	4,368	4,076
Trade and other payables	696	5,086	-	5,782	5,782
Non-current financial liabilities					
Loans	-	-	5,749	5,749	5,749
	2,782	**7,368**	**5,749**	**15,899**	**15,607**
2015 Group					
Current financial assets					
Cash and cash equivalents	23	-	-	23	23
	23	**-**	-	**23**	**23**
Current financial liabilities					
Loans	-	1,430	-	1,430	1,430
Trade and other payables	1,232	-	-	1,232	1,232
Non-current financial liabilities					
Trade and other payables	-	-	293	293	293
	1,232	**1,430**	**293**	**2,955**	**2,955**

19 Financial instruments (continued)

2016 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 financial assets					
Cash and cash equivalents	247	-	-	247	247
	247	**-**	**-**	**247**	**247**
Current financial liabilities					
Trade and other payables	639	5,087	-	5,726	5,726
Non-current financial liabilities					
Trade and other payables	**-**	**-**	**-**	**-**	**-**
	639	**5,087**	**-**	**5,726**	**5,726**
2015 Company					
Current financial 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**

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 the National Westminster Bank plc.

Group and Company:	Carrying value £000	Maximum exposure £000
Cash and cash equivalents	**247**	**247**

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 HMRC VAT and Atlantic Petroleum UK Limited 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.

19 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 no impact upon the Group's and Company's result for the year ended 31 December 2016.

Foreign exchange risk

At 31 December 2016, the Group's and Company's monetary assets and liabilities are denominated in GBP Sterling, the functional currency of the Group and each of its subsidiaries, other than USD 2,951,000 (£2,392,000) of current liabilities held by the Company and USD 2,457,000 (£1,992,000) of current liabilities held by the Group in one of its subsidiaries. This exposure gives rise to net currency gains and losses recognised in the Statement of Comprehensive Income. A 10% fluctuation in the GBP sterling rate compared to the US dollar would give rise to a £399,000 gain or loss in the Group's Statement of Comprehensive Income and a £217,000 gain or loss in the Company's Statement of Comprehensive Income.

The Group has no current revenues. The Group and the Company's cash balances are maintained in GBP Sterling which is the functional and reporting currency of each Group company. Consequently, no formal policies have been put in place 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 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 management

The primary objective of the Group's capital management is to maintain appropriate levels of funding to meet the commitments of its forward programme of exploration and development expenditure, and to safeguard the entity's ability to continue as a going concern and create shareholder value. The Director's consider capital to include equity as described in the Statement of Changes in Equity, and loan notes, as disclosed in Notes 14 and 15. Prior to 1 January 2016, the Group has been principally equity financed, reflecting the early stage and consequent relatively high risk of its activities. During 2016, the Group made drawings of £7,542,000 against its London Oil & Gas Limited and GE Oil & Gas UK Limited loan facilities.

Borrowing facilities

The Group and Company had £9,825,000 borrowings outstanding at 31 December 2016 (2015 - £1,460,000) including accrued interest. It had in place further undrawn debt on the London Oil & Gas Limited facilities of a total £8,009,000, excluding accrued interest, at that date.

Hedges

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

20 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:

	2016	2015
	£000	£000
Authorised but not contracted	-	7,180
Contracted	408	734
	408	**7,914**

All 2016 capital commitments relate to UKCS Licence and associated fees derived from the Group's participation in its UK North Sea operations.

Blythe Asset Acquisition

As announced on 19 April 2016 and subsequent deal completion on 21 June 2016, further to the initial £1.5 million consideration payable at completion, together with interim period adjustments, a further consideration payment of USD 5.0 million is to be paid contingent on first gas.

Vulcan Satellites Acquisition

As announced on 13 June 2016 and subsequent deal completion on 28 October 2016, further to the initial £1.0 million consideration payable at completion, together with interim period adjustments, and the initial deferred consideration of £0.75 million payable on 28 July 2017, further consideration payments of £1.75 million and £1.5 million are to be paid contingent on the approval of a Field Development Plan and on production of first gas respectively.

21 Related party transactions

Details of directors' remuneration are provided in Note 4.

Mark Routh acquired no additional shares during the year (2015 – nil). He held 4,303,010 shares at 31 December 2016 (2015 – 4,303,010) shares being 3.94% of the total issued share capital.

Peter Young subscribed for no additional shares during the year (2015 – acquired 105,087 for £25,000) bringing his total holding to 13,831,725 (2015 – 13,831,725) being 12.66% of the total issued share capital.

22 Subsequent events

The key events after 31 December 2016 are as follows:

Weatherford Technical Services Limited

On 8 March 2017, the Company, on behalf of its Group subsidiary, IOG North Sea Limited, signed a further amendment to alter the schedule and loan repayment amounts through to final redemption of the outstanding loan.

The terms of the amendment allowed for the Company to make monthly periodic payments through to 24 May 2017, at which time the loan has now been fully discharged.

INFORMATION AND ADVISERS

Country of incorporation of parent company

United Kingdom

Legal form

Public limited company with share capital

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