

# Independent Oil and Gas plc

Report and Audited Financial Statements

Year Ended

31 December 2019

Company Number 07434350

## ANNUAL REPORT & ACCOUNTS 2019

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## Chief Executive's Review

### 2019 Review

2019 proved to be a highly successful year for IOG in which we accomplished a series of transformational milestones against a turbulent backdrop. I am delighted to report that as a result of the year's activity we are fully funded to deliver first gas at our core development project ("Core Project") in the UK Southern North Sea ("SNS") in Q3 2021, having taken Final Investment Decision ("FID") in October 2019. The Core Project has always been a simple yet compelling proposition to deliver shareholder value: gas portfolio, pipeline, market. This proven core hub development approach provides clear competitive advantages enabling us to leverage our existing infrastructure to turn stranded or marginal assets into highly cost-efficient clusters. The reuse of pre-existing infrastructure also materially lowers the carbon footprint of our development, making our gas attractive from a sustainability perspective, an increasingly important element in both investment decisions and wider stakeholder engagement. The Company's successful financing, including our farmout to CalEnergy Resources Limited ("CER"), has laid firm foundations from which to deliver our Core Project and to pursue incremental development and production investment opportunities in the SNS. In everything we do, we endeavour to act with the highest regard to health, safety and sustainability as an operator and I look forward to another year of progress at our Core Project and across our SNS portfolio.

Following the restructuring of our debt and the successful defence of a hostile and opportunistic approach from one of our peers early in the year, the Company successfully raised aggregate gross proceeds of £18.9 million via an institutional equity placing, a Board/management subscription and a fully subscribed open offer. This critical step provided the financial strength and scope to deliver against our longer-term strategy for the benefit of our shareholders and new institutional investors. These proceeds funded the drilling of the Harvey appraisal well, 48/24b-6, and sustained overheads while progressing our farm-out process towards a successful conclusion.

The Harvey appraisal well presented the opportunity to add to the Company's resource base and was drilled safely in Q3 2019 using the Maersk Resilient jack-up rig, meeting the Initial Term commitment for Licence P2085 (IOG 100% Operator). While the results were different to pre-drill expectations, the well provided an invaluable data set to enhance our subsurface understanding of the Harvey-Redwell Area. Early indications from this work are encouraging, indicating the presence of a larger structure up-dip to the northeast of the 48/32-2 well, containing mid-case volumes of approximately 40 Bcfe, which would likely represent an attractive incremental investment opportunity. Integration of the Harvey well results into the seismic data spanning Redwell licence (P2441, IOG 100% Operator) also indicated that the Redwell discovery extends further to the northwest than previously estimated, incorporating both the Redwell discovery and Woodforde prospect into a single structure. The initial estimate of mid-case recoverable gas resource volumes on this structure is approximately 100 Bcfe.

In October 2019, we completed a Sale and Purchase Agreement ("SPA") with Perenco UK Ltd, Tullow Oil SK Ltd and Spirit Energy Resources for the acquisition of the onshore Thames Reception Facilities ("TRF") at Bacton Gas Terminal. Following FID, detailed planning and engineering work commenced to prepare for the refurbishment and recommissioning of the TRF gas and liquids processing equipment as part of the Core Project development plan.

The TRF and Thames Pipeline represent an important element of IOG's strategy as they provide the conduit to transport our own natural gas to the import-dependent UK market. In addition, the re-use of pre-existing infrastructure results in gross capex and transport tariff cost savings estimated to be in the order of £225 million over the lifecycle of the project. Furthermore, we also have ample capacity in the Thames Pipeline to accommodate additional IOG gas developments and to benefit from tariffs by offering a gas evacuation route to nearby gas producers. Equally important is the low-carbon footprint of our operations: post-period end we estimated the average carbon intensity of our platforms to be just 0.2 kg CO<sub>2</sub>/boe, versus the 2018 UK North Sea average of 21kg. This is an integral element to our sustainability proposition and ensures the Company remains a relevant and attractive source of domestic gas for the UK throughout the energy transition.

After an extensive competitive process, we were delighted to announce in Q3 the signing of the £165 million farm-out of 50 per cent of the Core Project, excluding Harvey, to CER ("Farm-out"). In the same quarter we raised a €100 million 5-year senior secured bond ("Bond") from Nordic, continental European, UK and Asian institutional investors, which provided the balance of funding required to take FID on Phase 1 of the Core Project. This we did on 28 October 2019, on completion of the farm-out transaction with our new partner.

Under the Farm-out agreement, CER retained the option to acquire 50 per cent of the Harvey and Redwell licences for an additional payment of £20 million and certain royalty payments. Following the Harvey well and the additional technical work to be completed on the Harvey-Redwell Area, IOG extended the option's initial three-month deadline to 27 February 2020 for CER to finalise their own technical analysis. Post period end, our technical work and development planning for these licences has continued and, although the original option was not exercised, discussions continue around potential future CER participation.

Further to the Farm-out, IOG and CER signed an Area of Mutual Interest agreement which provides a framework for a 50:50 alliance on business development opportunities within a defined SNS area. As testament to IOG's technical and management competence, CER has agreed that IOG will maintain operatorship on such ventures.

Over the course of 2019 we strengthened our board, welcoming the high-calibre appointments of Esa Ikaheimonen and Neil Hawkings as Independent Non-Executive Directors. Since their respective arrivals, both Esa and Neil's invaluable upstream oil and gas expertise have made an immediate impact on the business and we are very grateful for their support. We also announced Rupert Newall's appointment as IOG's Chief Financial Officer and his subsequent appointment to the Board. The first half of the year also saw the resignation of IOG-appointees Martin Ruscoe and Charles Hendry from the Board.

## 2020 Outlook

With Core Project funding secured and development activities underway, 2020 was already set to be a very busy year for IOG, before the arrival of the Covid-19 global pandemic and associated extreme economic volatility. Whilst this unprecedented scenario presents severe challenges across the energy industry, IOG remains in a relatively robust position – being funded to deliver first gas in Q3 2021 as operator of an exceptionally strong joint venture partnership. Moreover, as we embark on a phase of key contracting, the precipitous fall in oil prices driven by the Covid-19 demand shock and the significant global oversupply situation also creates potential opportunities to drive down costs in the context of our efforts to deliver Phase 1 as cost-efficiently as possible. It is also worth noting that we have taken all due precautions to ensure optimal business continuity during the Covid-19 crisis, which continues to escalate at the time of writing.

Since FID, we have continued to work closely with the UK Oil and Gas Authority ("OGA") towards approval of our Phase 1 Field Development Plan ("FDP"), after which formal contract awards will be made both for our Normally Unmanned Platforms ("NUIs") and Subsea, Umbilicals, Risers and Flowlines ("SURF"). Until then, work on both fronts continues as planned under Letters of Limited Commitment.

Pipelay work is set to begin in mid 2020, with the laying of a 7-kilometre 24-inch pipeline connecting the Southwark field to the Thames Pipeline followed by laying of the longer 24-kilometre 12-inch line connecting Blythe to the Thames Pipeline and a 10-kilometre 6-inch line connecting Elgood to Blythe.

Southwark and Blythe NUI construction is underway, with installation scheduled for H1 2021. Given shallow water depths and the unmanned design, these platforms offer a low-cost and low-CO<sub>2</sub> operational model in line with our intent to be an environmentally conscious operator. TRF refurbishment activities at Bacton Terminal also continue to progress positively.

Preparation is also well underway for the five-well Phase 1 development drilling campaign which is due to commence in Q1 2021. Amid improving contracting conditions, IOG's in-house drilling team are ramping up detailed well design activities and technical and commercial evaluation of a jack-up drilling rig tender. Likewise, discussions with offshore drilling services providers are progressing with a view to contract awards later in H1 2020.

Alongside our primary focus of delivering first gas on time and on budget, the Board and management are also focused on further growth opportunities with a key requirement for cost-efficiency and value-accretion with a low CO<sub>2</sub> footprint, leveraging the benefits of the existing infrastructure. In that context, in November 2019, IOG along with CER jointly submitted applications under the AMI for a number of blocks in the 32nd Offshore Licensing Round. These applications focused on discoveries and prospects within tie-back range of the Thames Pipeline and IOG's existing assets. We expect the results of the 32nd Round applications to be announced in mid-Q2 2020.

I would like to take this opportunity to thank the team at IOG for their hard work and dedication to the Company over the course of the year. I would also like to thank our shareholders for their continued support in a challenging, yet ultimately extremely positive year for the Company. A combination of hard work by the team and continued investor support has placed us in a strong position to achieve our ambitious goal of becoming a leading mid-cap UK SNS gas producer delivering significant shareholder value through high return investments.

**Andrew Hockey**  
**Chief Executive Officer**  
25 March 2020

## Strategic Report

### 2019 Highlights

#### Corporate and Operational

- Farm-out of 50% of Core Project to CalEnergy Resources Limited ("CER") with IOG retaining operatorship of all its assets
- Acquisition of the onshore Thames Reception Facilities ("TRF") at Bacton Gas Terminal
- Core Project Phase 1 Final Investment Decision (FID) taken in Q4 2019 with a view to first gas in Q3 2021
  - Development works kicked off across all four key elements: platforms, subsea, drilling and onshore
- Harvey appraisal well, 48/24b-6, drilled safely in Q3 2019
  - Initial analysis indicates c.40 Bcfe mid-case recoverable volumes at Harvey and c.100 Bcfe at Redwell
- Strengthening of board, management and operational team
- Alliance with CER for further Southern North Sea ("SNS") business development
  - Number of licence applications in 32nd Offshore Licensing Round in alliance with CER

#### Financial

- £40 million Farm-out up-front payment received from CER
  - £17.1 million used simultaneously to repay existing debt
- £125 million of development carry committed under Farm-out agreement
  - £60 million for Phase 1 and £65 million for Phase 2
- €100m 5-year senior secured bond issue successfully raised from Nordic, European, UK and Asian institutional investors and subsequently listed on Oslo Børs
- Institutional equity fundraise, board/management subscription and Open Offer completed, raising combined gross proceeds of £18.9 million
- Cash balance at period end of £98.3 million (2018: £0.7 million), including restricted cash of £82.0 million
- Post tax profit for the year of £15.0 million (2018: Loss £5.6 million)
- Group net cash at year end £8.0 million
- Converted 8p convertible loan into Ordinary Shares at Farm-out completion
- Restructured 19p convertible loan into a long-term, unsecured, non-interest bearing convertible Loan Note Instrument

#### Board and Management

- Esa Ikaheimonen appointed as Non-Executive Director
- Neil Hawkings appointed as Non-Executive Director
- Rupert Newall appointed as Chief Financial Officer and Executive Director

#### Post Year End Developments

- Platform construction activities underway
- Competitive tender process commenced for jack-up drilling rig for Phase 1 drilling programme
- Established Well Management Company selected to support IOG's in-house drilling team in delivering best in class well execution
- Onshore TRF refurbishment activities ramping up; FEED studies being executed by Worley
- £60 million Phase 1 development carry and €100 million bond issue being utilised as planned
- Further seismic reprocessing underway to support plans for Harvey and Redwell licences as incremental developments beyond the Core Project
  - Discussions ongoing as to potential CER participation in these licences following expiry of farm-in option in February 2020
- Core Project platforms estimated to have industry-leading average carbon intensity at just 0.2kg CO<sub>2</sub>/boe, versus 21kg UK North Sea 2018 average

## Health, Safety and Environment ('HSE')

Public consultations on the Environmental Impact Assessment (EIA) of the Blythe and Vulcan gas hub developments were conducted in February 2018 and May 2018 respectively, and a further public consultation was conducted in September 2019 following the decision to include Southwark as part of our Core Project Phase 1 development comprising Blythe, Elgood and Southwark. Regulatory approval of the EIA by the BEIS Offshore Petroleum Regulator for Environment and Decommissioning ('OPRED') is expected to occur during Q2 2020. The low carbon footprint achieved through the use of minimum facilities offshore platforms and the re-use of existing pipeline infrastructure remains an increasingly valued feature of our Phase 1 development and an integral element to our sustainability proposition.

Our corporate governance arrangements continue to be developed. Following its establishment in 2018 the Board HSE and Technical Committee has continued to convene periodically through 2019 and provide oversight and direction for strategy and conduct across the broad spectrum of environmental, safety and health considerations for the business. The Harvey appraisal well, 48/24b-6, was drilled in August and September 2019 using the Maersk Resilient jack-up rig with no lost time incidents.

The Company continues to maintain and develop capability and capacity to undertake its role as appointed offshore operator of the fields within which it holds a licence interest. In addition to support of the Company's acquisition of further licence interests and offshore field developments, the focus over the coming months will be the safe and environmentally responsible construction and installation of Phase 1 infrastructure, the drilling of offshore production wells and preparations for first gas anticipated in Q3 2021.

## Business Strategy

IOG deploys a focused infrastructure-led gas hub strategy as a cost-effective path to creating maximum value for shareholders, leveraging off its co-ownership of the Thames Pipeline gas export route and associated onshore reception facilities. These midstream assets are key pieces of infrastructure providing direct access to the UK gas market via Bacton Gas Terminal. Along with operatorship of its diversified portfolio of six 50%-owned Core Project development assets in the UK Southern North Sea, this provides both substantial economic benefits and a clear competitive advantage for further business development in the area.

Having fully funded and sanctioned Phase 1 of the Core Project during 2019, the Company's primary focus is successful development execution, targeting first gas in Q3 2021. The nucleus of IOG's strategy is to deliver Phase 1 on time and budget over 2020-21, thereby realising significant inherent value and enabling incremental business development opportunities. The latter fall into several categories, all focused on monetising the upside potential created by the Core Project hubs and infrastructure, with significant spare capacity in the Thames Pipeline. These categories are: discoveries within IOG acreage (such as Harvey, Redwell, Goddard Flanks and Abbeydale); active participation in Licensing Rounds (such as the applications made in the 32<sup>nd</sup> Round in November 2019) for low-cost addition of discovered resources; acquisitions of undeveloped assets within the scope of the Thames Pipeline; tariffing opportunities for third-party owned assets; and finally re-development of nearby shut-in or previously developed fields where commercial potential remains. The strategy focuses on prioritising the highest return opportunities and delivering them as increments to successful execution of the Core Project. The objective is specifically to maximise overall returns to investors, rather than reach certain reserves or production targets. This strategy has the potential to commercialise relatively small gas assets that would otherwise be stranded, marginal or sub-economic on a standalone basis. Furthermore, the Company will continue to operate its assets, while expanding its in-house technical and operational expertise – this is an important differentiator for business expansion and enhanced returns.

The Company has a strategic focus on gas, the cleanest hydrocarbon which is fundamental to security of energy supply in the UK. With over half of UK gas consumption now imported, stable gas supply is of strategic importance for the country's power generation, industrial and domestic heating requirements. Given its lower transportation costs, IOG's domestically produced gas has economic and environmental advantages over pipeline and LNG imports, and importantly also benefits from a lower carbon footprint than coal and oil. As such, maximising economic recovery from domestic North Sea gas resources is likely to remain a core government objective over the economic lifetime of IOG's assets.

## Licences

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

Licence	Blocks	Subsidiary	Interest	Discovery Name	Licence Type
<b>Blythe/Elgood Hub</b>					
P1736	48/22b ALL and 48/23a ALL	IOG North Sea Limited	50% <sup>[4]</sup>	Blythe	Traditional
P2260	48/22c ALL	IOG North Sea Limited	50% <sup>[4]</sup>	Elgood	Promote
<b>Harvey</b>					
P2085	48/23c ALL and 48/24b ALL	IOG North Sea Limited	100%	Harvey	Promote
P2441	48/24a	IOG North Sea Limited	100%	Redwell	Innovate A/C
<b>Vulcan Satellites Hub</b>					
P039	49/21a J	IOG UK Ltd	50% <sup>[4]</sup>	Elland <sup>[1]</sup>	Traditional
P2342	48/25a ALL	IOG UK Ltd	50% <sup>[4]</sup>	Nailsworth <sup>[2]</sup>	Innovate C
P130	48/25b NW	IOG UK Ltd	50% <sup>[4]</sup>	Nailsworth <sup>[2]</sup>	Traditional
P1915	49/21c ALL	IOG UK Ltd	50% <sup>[4]</sup>	Southwark <sup>[3]</sup>	Traditional
<b>Goddard</b>					
P2438	48/11c and 48/12b	IOG North Sea Limited	50% <sup>[4]</sup>	Goddard	Innovate C
<b>Abbeydale</b>					
P2442	53/1b	IOG North Sea Limited	50% <sup>[4]</sup>	Abbeydale	Innovate A/C
<b>Skipper</b>					
P1609	9/21a ALL	IOG North Sea Limited	0%	Skipper <sup>[5]</sup>	Traditional

[1] Formerly Vulcan East

[2] Formerly Vulcan North West

[3] Formerly Vulcan South

[4] 100% interest until 28 October 2019 when 50% was farmed-out to CalEnergy Resources Limited (see note 12)

[5] Skipper Licence 100% interest relinquished 11 February 2019

## 2019 Licence Update

On 11 February 2019 Licence P1609 (Skipper) reached the end of its Second Term and was relinquished.

To allow sufficient time for the approval of the Phase 1 Field Development Plan to proceed within the Second Term of the relevant licences:

- On 16 December 2019 the Development Term of Licence P1736 (Blythe) was extended by the OGA to the 30 June 2020.
- Post period, on 27 January 2020 the Second Term of Licence P1915 (Southwark) was extended by the OGA to the 30 June 2020.
- On 21 January 2019 the Initial Term drill or drop commitment on Licence P2260 (Elgood) was waived by the OGA to allow the Licence to proceed into the Second Term.

On 23 July 2019 the Initial Term of Licence P2342 (Nailsworth) was extended to 31 December 2021 to allow Phase 2 Field Development Plan preparation to continue.

On 20 December 2019 following the fulfilment of all Initial Term commitments, Licence P2085 (Harvey) proceeded into the Second Term <sup>[1]</sup>

## Statement of Reserves & Resources

### SNS Hubs Reserves

SNS Portfolio	Gas Reserves			Condensate Reserves		
Field	(BCF)			(MMBbls)		
<b>Blythe Hub</b>						
	<b>1P</b>	<b>2P</b>	<b>3P</b>	<b>1P</b>	<b>2P</b>	<b>3P</b>
Blythe	12.6	16.5	22.2	0.2	0.2	0.2
Elgood	7.4	10.9	16.2	0.1	0.1	0.2
<b>Total Blythe Hub</b>	<b>20.0</b>	<b>27.4</b>	<b>38.4</b>	<b>0.3</b>	<b>0.3</b>	<b>0.4</b>
<b>Vulcan Satellites Hub</b>						
	<b>1P</b>	<b>2P</b>	<b>3P</b>	<b>1P</b>	<b>2P</b>	<b>3P</b>
Nailsworth	30.2	49.7	73.6	0.3	0.5	0.7
Elland	20.0	27.5	36.5	0.0	0.0	0.0
Southwark	30.6	47.0	68.8	0.0	0.0	0.1
<b>Total Vulcan Satellites Hub</b>	<b>80.8</b>	<b>124.2</b>	<b>178.9</b>	<b>0.3</b>	<b>0.5</b>	<b>0.8</b>
<b>Totals SNS Portfolio</b>	<b>100.8</b>	<b>151.6</b>	<b>217.3</b>	<b>0.6</b>	<b>0.8</b>	<b>1.2</b>

Source: ERC Equipoise Competent Person's Report 11 October 2017

### Goddard Contingent Resources

	Contingent Gas Resources		
Discovery	(BCF)		
	1C	2C	3C
Goddard	27.4	53.9	101.4

Source: ERC Equipoise Competent Person's Report 10 October 2018

### Goddard Prospective Resources

	Prospective Gas Resources			
Prospect	(BCF)			
	Low	Best	High	Mean
Pop Up 1	13.9	24.8	40.8	26.2
Pop Up 2	7.0	12.1	20.0	12.9

Source: ERC Equipoise Competent Person's Report 10 October 2018

**Statement of Reserves & Resources** (continued)**Harvey Licences: Prospective Resources**

	<b>Prospective Gas Resources</b>		
<b>Discovery</b>	<b>(BCF)</b>		
	<b>Low</b>	<b>Best</b>	<b>High</b>
Harvey and Redwell		140	

Source: Management Estimates: December 2019

**Abbeydale Contingent Resources**

	<b>Contingent Gas Resources</b>		
<b>Discovery</b>	<b>(BCF)</b>		
	<b>1C</b>	<b>2C</b>	<b>3C</b>
Abbeydale	3	6	12

Source: Management Estimates: September 2018

[1] Values are reduced to reflect 50% share, except Harvey and Redwell, following the Farm-out to CER.



## Operational Update

### Thames Pipeline and Thames Reception Facility

The 100% acquisition of the Thames Pipeline from Perenco UK Limited, Tullow Oil SK Limited and Spirit Energy Resources Limited completed in April 2018. With the farm down of the Core Assets to CalEnergy Resources Limited in October 2019, IOG now retains a 50% operated share in the pipeline. IOG Infrastructure Limited is the owner, user, holder and operator of the pipeline under the Pipeline Works Authority ('PWA').

On 25 October 2019 the acquisition of the Thames Reception Facility from Perenco UK Limited, Tullow Oil SK Limited and Spirit Energy Resources Limited completed. On completion £2.0 million of security was posted. With the farm down of the Core Assets to CalEnergy Resources Limited on 28 October 2019, IOG now retains a 50% operated share in the Thames Reception Facility. At completion the £0.5 million pipeline security paid to Perenco in April 2018 was transferred to a Law Debenture Trust account for our benefit. The total £2.5million security is now held 50:50 with CalEnergy Resources Limited.

The viability of this export route was confirmed by a 150 bar 24 hour hydrotest completed in September 2018. Work has continued during 2019 on the design definition of the reactivation of the Thames Pipeline and the tie into the Southwark platform as the new starting point of the line. This work has increased in intensity with the declaration of FID for the Phase 1 project at the end of October 2019 and at the time of writing plans are being finalized for the intelligent pigging of the pipeline in April 2020. Work has also continued on the definition of the refurbishment works required at the TRF for it to be ready to receive first gas in Q3 2021.

### Core Project Phasing

During development engineering studies in 2018, it was decided to split the Core Project development into two Phases with Phase 1 comprising Blythe, Elgood and Southwark. In January 2019 it was decided to include Goddard in the Core Project. Phase 2 therefore includes Nailsworth, Elland and Goddard.

#### Core Project: Blythe

The Blythe gas discovery in the Rotliegend Lemman Formation, straddles Blocks 48/22b and 48/23a in the SNS in licence P1736 in which IOGNSL has a 50% working interest and is operator. Blythe is planned to be developed with a single well tied back to the Thames Pipeline via an unmanned platform ('NUI').

The draft Phase 1 Field Development Plan comprising Blythe, Elgood and Southwark was submitted to the OGA in August 2018 and following bilateral meetings was resubmitted in late October 2018 taking account of OGA comments. Following the decision in early 2019 to farm down the IOG 100% interest in the Core Assets, progress toward FDP approval was necessarily limited until the farm-out process to CER completed and FID was declared at the end of October. At year end, EIA and FDP approval are expected to occur during Q2 2020 with first gas from Southwark planned for Q3 2021 and Blythe first gas in early Q4 2021.

Following 2018 FEED studies to assess costs and schedule for the tie-in lines to the Thames Pipeline for the Phase 1 development including Blythe and 2018 offshore geotechnical surveys, FEED studies for the Blythe Platform continued in 2019 and work has progressed with the selected platform and pipeline and subsea installation contractors during Q4 2019.

In December 2019 the initial Term of Licence P1736 containing Blythe was extended to 30 June 2020 subject to the condition that an FDP be approved by the OGA by 30 June 2020.

## Operational Update (continued)

### Core Project: Elgood

IOGNSL has 50% 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 in the Rotliegend Leman Sandstone.

Elgood is planned to be developed with a single well tied back subsea to the Thames Pipeline via a NUI at Blythe.

The Phase 1 Field Development Plan comprising Blythe, Elgood and Southwark was submitted to the OGA in August 2018 and following bilateral meetings was resubmitted in late October 2018 taking account of OGA comments. Following the decision in early 2019 to farm down the IOG 100% interest in the Core Assets, progress toward FDP approval was limited until the farm out process to CER completed and FID was declared at the end of October. At year end EIA and FDP approval are expected to occur during Q2 2020 with first gas at Southwark in Q3 2021 and Elgood first gas in Q4 2021.

Following 2018 FEED studies to assess costs and schedule for the tie-in lines to the Thames Pipeline for the Phase 1 development including Elgood, on declaration of Phase 1 FID, 2019 work has continued with the chosen pipeline and subsea installation contractor for the detailed design and planning for the installation during 2020 of the Elgood to Blythe pipeline and during 1H 2021 for the umbilical.

In January 2019 IOG received notification from the OGA that the drill or drop commitment for the initial Term of Elgood Licence P2260 had been waived and the Licence could proceed into the Second Term.

### Core Project: Vulcan Satellites – Southwark, Elland and Nailsworth

The Vulcan Satellites are planned to be developed with NUIs at Southwark (three wells), Elland (two wells) and Nailsworth (three wells) via the Thames Pipeline. All three satellites have their reservoirs in the Rotliegend Leman Sandstone.

Following 2018 development studies it was decided to include Southwark as part of a Phase 1 development comprising Blythe, Elgood and Southwark.

The Phase 1 Field Development Plan comprising Blythe, Elgood and Southwark was submitted to the OGA in August 2018 and following bilateral meetings was resubmitted in late October 2018 taking account of OGA comments. Following the decision in early 2019 to farm down the IOG 100% interest in the Core Assets, progress toward FDP approval was limited until the farm out process to CER completed and FID was declared at the end of October. At year end EIA and FDP approval are expected to occur during Q2 2020 with first gas at Southwark in Q3 2021.

Following 2018 FEED studies to assess costs and schedule for the tie-in lines to the Thames Pipeline for the Phase 1 development including Southwark and offshore geotechnical surveys for the Southwark platform, FEED studies, detailed engineering and planning for the Southwark platform continued during 2019 with the chosen platform designer and fabricator. At the time of writing first platform steel has been cut for the platform.

Nailsworth and Elland, the other two Vulcan Satellites, will be part of Phase 2 of the development.

Given the development sequencing of both Nailsworth and Elland (Phase 2), most current year 2019 fixed asset additions have been attributable to the Southwark development area.

Further to the Vulcan East (Elland) suspended well 49/21-10A decommissioning paper, prepared by Acona in April 2015, IOGUKL has revisited the abandonment provision. Given drilling work is now envisaged to be occurring in the area of the suspended well during the Phase 2 development works, it is envisaged that the decommissioning can be completed at a cost of £2.4 million due to savings with synergies associated with this development drilling programme.

## Operational Update (continued)

### Core Project: Goddard

IOG NSL has a 50% working interest in and is operator of Licence P2438 which contains Goddard, an undeveloped gas discovery.

Licence P2438 formally commenced on 1 October 2018. Under the licence a firm commitment was made to the Oil and Gas Authority ("OGA") to reprocess 175 km<sup>2</sup> of 3D seismic to PSDM and drill an appraisal well on Goddard to 3,140m TD within three years. In the second half of 2018 access to 3D seismic data processed to PSDM level was secured from a previous operator, fulfilling the reprocessing commitment.

ERC Equipose assess gross unrisked 1C/2C/3C Contingent Resources of 54.3/107.8/202.8 BCF at Goddard (net 27.4/53.9//101.4BCF) and Low/Best/High gross unrisked prospective gas resources are 41.8/73.0/121.4 BCF (net 20.9/36.9/60.8 BCF). The chance of development of Goddard is estimated by ERC Equipose as being 75%. The CPR assesses the geological chance of success of the prospective gas resources at 48%.

In the light of the relative maturity of Goddard's Contingent Resources it was decided in early 2019 to commence Goddard FDP planning and to include Goddard in Phase 2 Core Project development planning.

### Abbeydale

IOG NSL has a 50% working interest in and is operator of Licence P2442 which contains the Abbeydale undeveloped gas discovery. Licence P2442 formally commenced on 1 October 2018. Under the four-year Licence, a commitment was made to reprocess 150 km<sup>2</sup> 3D seismic data to PSDM and drill a well to 1,960m TD or drop the licence. 2019 work focused on securing prices for and planning 3D reprocessing.

Management estimates gross contingent resources on Abbeydale are 1C/2C/3C 5/11/24 BCF (net 2.5/5.5/12 BCF). The new 3D seismic reprocessing programme is expected to increase these estimates to more commercial levels with a view to tying into our Thames Pipeline as the export route.

### Harvey and Redwell

IOGNSL has a 100% working interest in Licence P2085 to the east of Blythe (Blocks 48/23c & 48/24b), which was awarded in the 27<sup>th</sup> Licensing Round, and in Licence P2441, awarded in the 30<sup>th</sup> Licensing Round, which contains the Redwell (previously named Wherry) discovery.

Following the completion of seismic reprocessing in 2018, a new volumetric assessment of gross unrisked Prospective Resources (as estimated by management) was made at Harvey of 85-129-199BCF (Low-Mid-Best Estimate). Management's assessment of Geological Chance of Success at Harvey was 63%. Under the terms of licence P2085 a firm commitment was made to the Oil and Gas Authority ("OGA") to drill a well to 7,300ft TDVSS by 20 December 2019 or drop the Licence.

In Q3 2019 IOG drilled the Harvey appraisal well using the Maersk Resilient jack-up drilling unit. Halliburton were contracted to provide bundled well services and Fraser Well Management were retained as Well Operator.

Harvey appraisal well 48/24b-6 spud on the 3 August 2019. The well reached a total depth of 7,537 ft Measured Depth (MD) in the Permian Lemman Sandstone reservoir, meeting the Initial Term work commitment for Licence P2085. The top of the Lemman Sandstone was encountered at 7,086 ft MD. Two 90 ft cores were acquired in the reservoir along with a full suite of wireline logs, including pressure test and fluid samples, as well as Vertical Seismic Profiling (VSP). Initial analysis of the wireline data demonstrated the presence of a 49 ft gas column at the top of the reservoir, in contrast to pre-drill estimates of a 211 ft gas column.

Initial seismic remapping and technical assessment of gas volumes was completed in December. This remapping indicated that the Harvey structure as described on the pre-stack depth migration (PSDM) map prior to the well is likely to be compartmentalised into more than one structure. The 49ft gas column encountered at the well location appears to be a small independent pocket of gas. The updated mapping based on the well data also indicates the presence of a larger structure at Harvey up-dip to the northeast of the previous 48/23-2 well, i.e. the northern part of the pre-well PSDM Harvey structure. The size of this structure implies mid-case recoverable volumes of approximately 40 Bcfe, analogous to Blythe. Additional technical work is ongoing to provide further definition on the updated mapped volumes.

### **Operational Update** (continued)

The well results have also been integrated into the seismic data covering the area of the Redwell discovery in IOG's P2441 licence, to the immediate east of the P2085 Harvey licence. This indicates that Redwell extends further to the northwest than previously estimated, incorporating both the Redwell discovery and Woodforde prospect into a single structure with management estimated mid-case recoverable resource volumes in the region of 100 Bcfe. The wells drilled at Redwell by previous operators prior to 2006 demonstrated a low-relief discovery of good reservoir quality. Further reservoir modelling work will now be undertaken to confirm estimates of gas in place (GIIP), potential resources and deliverability at Redwell. This will then inform whether there is scope for a future development in the Redwell-Harvey area (P2085 and P2441 licences), potentially benefitting from direct tie-in to the by-then operating Thames Pipeline export route or tie-back to Core Project infrastructure such as the Southwark or Blythe platforms.

Alongside the farmout transaction with its partner CER which completed in October 2019, IOG agreed an option for CER to acquire 50 per cent of the P2085 and P2441 licences within three months of completion of the Harvey appraisal well. Exercise of the option would entail a £20 million payment to IOG and a £0.95/MCF royalty on all of CER's life-of-field net gas production from Harvey. Given the time required to assess and integrate the Harvey well results, IOG agreed that CER would have until 27 February 2020 to finalise their own technical analysis and decide whether to exercise the option. Post period, CER allowed the option to lapse and we continue to discuss terms on which CER might enter the Harvey Licences.

### **Skipper**

The Skipper licence, P1609, was formally relinquished on 11 February 2019, as determined by the OGA.

### **Asset Acquisitions**

The Company continues to assess the potential for the acquisition of a number of assets, to support the wider development and growth of the business.

### **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. The Group has two main KPIs, the first of which is to cause no harm to people or the environment and the second of which was to sustain no Lost Time Incidents, both of which were met in 2019.

## Principal Risks and Uncertainties

The Group operates in the oil and gas industry, an environment subject to a range of inherent risks and uncertainties. Key risks and associated mitigation are set out below.

<p><b>Finance:</b> Management seeks to generate shareholder returns through monetisation of a portfolio of proven offshore gas assets. This primarily entails construction and installation of production, transportation and processing infrastructure and drilling of production wells. These activities carry several key risks.</p>	
Risk	Mitigation
Investor support may be eroded, impacting the Company's market value and potentially hindering fundraising activities	<ul style="list-style-type: none"> <li>• Management has a clear strategy for value realisation and creation, which is regularly communicated to shareholders</li> <li>• The Company's asset portfolio has robust inherent economics as well as substantial incremental value, as attested by third-party analyst reports</li> <li>• The Company has fully funded its Phase 1 development and is therefore not anticipating raising additional capital in this regard</li> <li>• CER's credit risk is low and kept under review</li> </ul>
Volatility in macroeconomic conditions may hinder delivery of the Company's business plan	<ul style="list-style-type: none"> <li>• The Company has fully funded its Phase 1 development and therefore has sufficient liquidity for its planned activities</li> <li>• As a buyer of products and services, the Company faces both risks and opportunities from economic volatility</li> </ul>
Each asset carries a range of potential values	<ul style="list-style-type: none"> <li>• The Company has a healthily diversified portfolio of 6 proven gas fields in its Core Project, plus further assets which could potentially be added, therefore there is limited financial dependence on a single asset</li> </ul>
The Company may not be able to raise funds to develop its assets	<p>The Company successfully undertook equity, debt and farm-out funding from CER in 2019 which fully funded its Phase 1 activities, as detailed elsewhere in this report. With its current funding requirement met, the Company is anticipating production revenues from operations in H2 2021, which allows it then to begin to assess the funding requirements for the Phase 2, The Company will also have access to £65.0 million of funding carry from CER at that point</p>
The Company faces the risk of a breach of its Bond terms	<ul style="list-style-type: none"> <li>• The Company makes consistent efforts to be fully aware of its responsibilities and obligations under the Bond terms</li> <li>• The Company makes consistent efforts to manage the business within budget</li> <li>• Management calibrates key project commitments against bond conditions and covenants to ensure avoidance of any breach</li> </ul>
The administrators of London Oil and Gas Ltd ('LOG') may be obliged to divest its holding, creating downward pressure on the Company's market value	<ul style="list-style-type: none"> <li>• The Company notes that the administrators of London Capital &amp; Finance ("LCF"), with respect to LOG's holding in IOG, have stated publicly in December 2019 that they saw the market value of the Company at the time as a "significant discount to IOG's estimated net asset value". Management continues to have a positive engagement with the administrators and believe they intend to maximise the value of the LOG holding in IOG.</li> </ul>

**Principal Risks and Uncertainties** (continued)

<b>Operations:</b> Operations may not go to plan, leading to damage, pollution, cost overruns and poor outcomes	
<b>Risk</b>	<b>Mitigation</b>
Reservoir and subsurface uncertainty	<ul style="list-style-type: none"> <li>• Thorough subsurface mapping and reservoir modelling</li> <li>• High quality well design</li> <li>• Lessons learned during early wells applied to subsequent wells</li> </ul>
Departure from Schedule and Budget	<ul style="list-style-type: none"> <li>• Ensure the project team is populated with sufficient competent personnel</li> <li>• Award contracts to competent contractors</li> <li>• Test schedule and budget - rigorous schedule and budget control</li> <li>• Follow gate process, utilise peer reviews at appropriate project stages</li> </ul>
Market conditions for rig and marine vessel procurement may harden.	<ul style="list-style-type: none"> <li>• Contractual rates with existing platform and pipeline contracts have been fixed</li> <li>• Issue advance ITTs to obtain prices for future services</li> <li>• Where possible incentivise contracts in order to minimise delivered cost</li> </ul>
Scope 'creep' in required works at the Bacton Terminal	<ul style="list-style-type: none"> <li>• Develop a well-defined FEED during which the scope is stress tested</li> <li>• Implement and maintain a Management of Change process</li> <li>• Apply rigorous cost and schedule controls throughout Execution of works</li> </ul>
Cyber Security	<ul style="list-style-type: none"> <li>• Build an enhanced IT security plan and supporting procedures, including in particular:</li> <li>• Improve access right to systems and protocols</li> <li>• Enhance onboarding and leaving processes</li> </ul>
Resource estimates may be misleading curtailing actual reserves recovered	<ul style="list-style-type: none"> <li>• The Group deploys qualified personnel</li> <li>• Regular third-party reports are commissioned</li> <li>• A prudent range of possible outcomes are considered within the planning process</li> </ul>

<b>Regulatory and Legal:</b> The Group may be unable to meet its licence and regulatory obligations	
<b>Risk</b>	<b>Mitigation</b>
Delay in obtaining Offshore Field Development plan (FDP) consent, including Environmental consent for Phase 1	<ul style="list-style-type: none"> <li>• Expedite submission of final revision of EIA to BEIS and then expedite BEIS to grant EIA approval.</li> <li>• Liaison with OGA and other authorities to minimise delays in approvals</li> <li>• Fully prepare all relevant applications for prompt submission.</li> </ul>
Deficiency in Corporate Governance	<ul style="list-style-type: none"> <li>• Develop, implement and maintain a suitable suite of corporate procedures (e.g. Financial Operating Procedures).</li> <li>• All contracts must be authorised by Contracting and Procurement Function, General Counsel and Finance</li> </ul>

<b>Human Resources:</b> The Company relies upon a pool of experienced and motivated personnel to identify and execute successful investment strategies	
<b>Risks</b>	<b>Mitigation</b>
Key personnel may be lost to other companies	<ul style="list-style-type: none"> <li>• The Remuneration Committee regularly evaluates incentivisation schemes to ensure they remain competitive</li> </ul>
Difficulty in attracting the necessary talent as the Group moves into development of its projects	<ul style="list-style-type: none"> <li>• The Group continues to review and adopt attractive packages for both staff and contractors</li> </ul>

## Principal Risks and Uncertainties (continued)

<b>HSE and Sustainability</b>	
<b>Risks</b>	<b>Mitigation</b>
Personal harm to those that may be affected by our undertakings	<ul style="list-style-type: none"> <li>Compliance with the UK regulatory goal setting regime for safety is established, implemented and maintained through the Company leadership HSE and Technical Committee, culture and management systems for safety</li> </ul>
Adverse environmental effects of our activities including, in particular, contributing to Climate Change	<ul style="list-style-type: none"> <li>Strategic focus on natural gas as the preferential fossil fuel to provide a transition energy source to a renewables future</li> <li>Design and operation of low carbon footprint facilities, including re-use of existing infrastructure</li> </ul>
<b>Commercial environment:</b> World and regional markets continue to be volatile with fluctuations and infrastructure access issues that might hinder the Company's business success	
<b>Risk</b>	<b>Mitigation</b>
Stakeholder mis-alignment	<ul style="list-style-type: none"> <li>Regular interfacing with key stakeholders</li> <li>Understand stakeholders' priorities and drivers</li> <li>Build and maintain relationships with stakeholders</li> </ul>
Volatile commodity prices mean that the Company cannot be certain of the future sales value of its products	<ul style="list-style-type: none"> <li>Price mitigation strategies may be employed at the point of major capital commitment</li> <li>Gas may be sold under long-term contracts reducing exposure to short term fluctuations</li> <li>Oil and gas price hedging contracts may be utilised where viable</li> <li>Budget planning considers a range of commodity pricing</li> </ul>
Gas price volatility	<ul style="list-style-type: none"> <li>Continue to take advice from gas market experts.</li> <li>Progress discussions for possible future hedging.</li> </ul>
Brexit 'no-deal' at the end of 2020	<ul style="list-style-type: none"> <li>Major contracts for Phase 1 awarded or to be awarded in 2020.</li> <li>Maximise GBP content to minimise exposure to adverse FX rates</li> </ul>
The Group may not be able to get access, at reasonable cost, to infrastructure and product markets when required	<ul style="list-style-type: none"> <li>A range of different off-take options are pursued wherever possible</li> </ul>

**COVID-19 Pandemic:** Post period end the COVID-19 pandemic has created severe economic upheaval and unforeseeable disruptions to normal working practices around the world

<b>Risks</b>	<b>Mitigation</b>
COVID-19 Pandemic and associated economic volatility materially disrupts the Company's ability to deliver its key corporate objectives	<ul style="list-style-type: none"> <li>The Company has already secured funding to achieve first gas and free cash flow, and is not dependent on current cash flows to fund itself</li> <li>The Company has implemented logistical and organisational changes to underpin its resilience to severe economic disruption driven by COVID-19, with the key focus being protecting all personnel, minimising impact on critical workstreams and ensuring business continuity</li> </ul>

## **Principal Risks and Uncertainties (continued)**

### **S172 statement**

Section 172 of the Companies Act 2006 requires Directors to take into consideration the interests of stakeholders and other matters in their decision making. The Directors continue to have regard to the interests of the Company's employees and other stakeholders, the impact of its activities on the community, the environment and the Company's reputation for good business conduct, when making decisions. In this context, acting in good faith and fairly, the Directors consider what is most likely to promote the success of the Company for its members in the long term. We explain in this annual report, and referenced below, how the Board engages with stakeholders.

### **Likely consequence of any decision in the long term**

The Chief Executive's Review at pages 2 and 3, Business Strategy at page 5 and the QCA Statement on strategy at page 23 set out the Company's long term rationale and strategy.

### **Interests of Employees**

The Employee section of the Company's QCA Statement on page 25 of this Annual Report sets out the Company processes in place to safeguard the interests of employees.

### **Foster business relationships with suppliers, customers and others**

The Company's policies and procedures relating to suppliers and all stakeholders are set out in the QCA Statement on page 23. The Company's approach to Shareholders is set out in the QCA Statement at page 21.

### **Community and Environment**

The Company's approach to the community is set out in the QCA Statement at page 23 and to the environment at page 5, and the QCA Statements at pages 26 and 27.

### **Maintain high standards of business conduct**

The Corporate governance section of this Annual Report at pages 19 - 38 sets out the Board and Committee structures and extensive Board and Committee meetings held during 2019, together with the experience of executive management and the Board and the Company's policies and procedures.

### **Act fairly between shareholders**

The Chief Executive's Review on pages 2 and 3 and Highlights of 2019 on page 4 summarise the institutional equity fundraise, Board/management subscription and open offer, LOG restructuring, bond issue and Farm-out to CER reconciling the Company's various stakeholder interests to preserve and enhance value.

### **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 2019 in view of the limited liquidity of longer dated UK gas futures and exposures carried during the year. As the Company's capital investment programmes increase, the Company will consider the use of appropriate hedging, seeking to retain 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 risks arising from the Group's use of financial instruments can be found in Note 22 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.



## Finance Review

From a financial perspective 2019 was a transformational year for the Company with over £250 million of committed capital raised across a number of transactions, culminating in FID being taken on Phase 1 of the Core Project.

Financial highlights for the year primarily included the successful Farm-out to CER, which entailed a £40 million consideration paid on completion plus development carries of £60 million and £65 million for Phase 1 and Phase 2 respectively. Alongside this came the successful €100 million 5-year senior secured bond issue which settled in September 2019 and was subsequently listed on the Oslo Børs.

The farm-out consideration enabled the repayment of £17.1 million in debt, alongside which the full £10.9 million of the 2016 8p convertible loan principal and accrued interest was converted into 135,464,155 new Ordinary Shares. In addition, the full £11.6 million of 2018 19p convertible loan principal and accrued interest was restructured into a long-term, unsecured, non-interest-bearing Loan Note Instrument, convertible at 19p into 60,872,631 Ordinary Shares.

The other significant funding event of the year was the institutional equity Placing, as announced on 3 April 2019, which raised gross proceeds of £16.6 million, alongside which a fully subscribed Open Offer raised £2.0 million and a Board & management Subscription raised a further £0.275 million. This combined equity fundraise funded corporate and operational activities during the year.

The Company ended the year with £16.2 million of cash and £82.1 million of restricted cash relating to the Bond issue and remaining Phase 1 development carry of £55.5 million.

## Income Statement

The Group made a gain for the year of £15.0 million (2018: £5.6 million loss), driven by a £24.3 million profit on disposal of 50% of the Core Project assets.

There was no impairment made against oil and gas properties during the year. This compares with the £184k impairment charged in 2018 relating to post-well drilling expenses.

The Income Statement includes a charge of £4.0 million (2018: £0.9 million) reflecting the expenses incurred for pre-licence activity, business development ("BD") and other corporate project activity and expenses.

Net administration expenses of £2.6 million (2018: £1.0 million) relate to the underlying costs of running the Group's corporate operations and have increased as a result of the business and increase in the headcount now required.

There was no gain/loss on settlement of liabilities in the period. The 2018 loss of £106k reflected both realised and unrealised movements on the settlement of liabilities via the issue of shares.

The foreign exchange gain of £0.2 million (2018: loss £0.3 million) reflects foreign exchange movements on non-GBP denominated loans, provisions and trade creditors and loans.

A gain of £5.0 million was recognised on the restructuring of the February 2018 convertible loan from LOG. The replacement convertible loan note improved terms such as attaching a zero interest rate and provided an extended maturity date and was subordination to other Group debt. See note 7 for full details.

Finance expense of £7.9 million (2018: £3.1 million) includes accrued interest payable on loans (net of capitalised interest of £1.5 million (2018: £0.8 million), discount accretion and both current and amortised finance expenses. These expenses relate to fees and interest incurred on both loan finance facilities and those trade creditors subject to deferred payment and equity conversion terms.

## Balance Sheet

PPE oil and gas assets have decreased to £28.9 million (2018: £41.5 million) during the year, representing capital expenditure activities on the Core Project assets, and the impact of the Farm-out which entailed 50% disposal of these assets.

The Harvey, Goddard and Abbeydale exploration and evaluation ('E&E') assets represent the E&E portfolio at 31 December 2019, with a net book value of £13.1 million (2018: £2.4 million) to the Group at that date.

Current assets have increased to £103.4 million (2018: £1.4 million) mainly resulting from adding the Bond proceeds, increasing the cash resources to £98.3 million (2018: £0.7 million) of which £82.1 million is restricted.

Total liabilities have increased to £106.0 million (2018: £51.1 million) mainly resulting from accounting for the Bond, creating an increase in long-term loans of £66.4 million. Liabilities also include trade creditors £3.9 million (2018: £5.9 million), other creditors £1.4 million (2018: £1.8 million), deferred consideration in relation to acquisitions of £3.1 million

## Finance Review (continued)

(2018: £6.2 million). Decommissioning provisions of £7.2 million, including Vulcan East suspended well abandonment provision of £1.2 million (2018: £3.6 million), the Thames Pipeline decommissioning provision of £1.0 million (2018:

£2.0 million) and the Thames Reception Facility at Bacton of £5.0 million. Accruals of £1.3 million (2018: £3.5 million). There are no short-term loans (2018: £6.9 million).

The Group ended the period with a net cash position of £8.0 million.

## Cash Flow

Net cash outflows of £10.3 million (2018: £3.0 million) from operations, £83.3 million (2018: £14.8 million) from investing activities and £109.0 million (2018: £0.4 million) from financing activities. Loan repayments of £17.1 million (2018: £nil) were funded from proceeds from the Farm-out to CER of the issue of equity instruments in the Company totalling £18.9 million (2018: £18.8 million). At the end of the period £82.0 million of funds were held as restricted cash in escrow accounts relating to monies received from the Bond issue.

The Directors do not recommend payment of a dividend.

## €100 million Bond

In September 2019, the Group issued a €100 million 5-year senior secured Bond in the name of Independent Oil and Gas plc to a range of institutional investors across the Nordic region, Europe, UK and Asia. It has a bullet repayment structure, with a maturity date of 20 September 2024, and an interest rate, payable quarterly, of 9.5 per cent per annum over the three-month EURIBOR rate (with a floor of zero when this rate is negative, as it is at the time of writing). The first eight quarterly payments were set aside at settlement in a Debt Service Reserve Account. The Bond has a senior secured position over the Group's licences and infrastructure assets, as well as any further licence in which the Group takes an ownership interest during the tenure of the Bond.

The Bond is callable 3 years after issuance with an initial call premium of 50% of the coupon (i.e. repayable at a cost of €104.75 million if 3m EURIBOR is at zero or lower), declining by 10% every six months thereafter.

Proceeds of the Bond are to be used to fund capital expenditure on IOG's gas development project in the UK Southern North Sea ("Core Project"), financing costs and general corporate purposes.

In December 2019 the Bond was listed on the Oslo Børs with the ISIN NO0010863236.

The Company has the option, subject to conditions and investor commitments, to issue additional amounts up to a maximum aggregate of €30 million ("Tap Issues"). Tap Issues carry identical terms to the initial €100 million issue, but may be issued at different prices.

## Funding & Liquidity

The Board has reviewed the Group's cash flow forecasts having regard to its current financial position and operational objectives.

The Consolidated Statement of Financial Position at 31 December 2019 details a net cash position of the Group of £8.0 million. The Board is satisfied that the Group will have sufficient financial resources available to meet its commitments based on meeting the requirements of the funding commitments in place. In particular, the completion of the Bond and Farm-out transactions, as announced on 9 September 2019 and 28 October 2019 respectively, provide the funding required to finance the Group's activities. Accordingly, the Board continue to adopt the going concern basis for the preparation of these financial statements.

The Strategic Report on pages 4 to 18 has been issued and signed on behalf of the Board.

**Rupert Newall**  
**Chief Financial Officer**  
25 March 2020

## Corporate Governance Statement

### 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 London Stock Exchange listed companies. The Board is supported by a capable and experienced management team.

#### **Fiona MacAulay – Non-Executive Chair**

A Chartered Geologist with over 30 years' experience in the Upstream oil and gas sector including key roles in a number of leading oil and gas firms across the large, mid and small cap space including Mobil, British Gas, Amerada Hess and Rockhopper. Non-Executive Director at Coro Energy plc, EPI Group Ltd and Ferrexpo PLC. Past president of the American Association of Petroleum Geologists Europe. Fiona chairs the Company's Remuneration and Nominations Committee.

#### **Andrew Hockey – Chief Executive Officer**

Having worked in the industry for 38 years, Andrew Hockey has significant sector experience. He has a technical background with a BA in geology from Oxford University, and an MSc in petroleum geology from Imperial College. Until the end of 2015 Andrew was General Manager of Business Development at UKCS oil and gas exploration and production company Fairfield Energy Limited. Andrew led the team to acquire Clipper South as an undeveloped gas discovery and then subsequently managed its development via farm down and funding through to first gas. Andrew is a non-executive director of Fairfield Energy Ltd and also of Chariot Oil and Gas, a company with gas interests in Morocco.

#### **Rupert Newall – Chief Financial Officer (appointed 11 December 2019)**

Rupert has over 25 years of corporate finance experience in the upstream oil and gas industry, primarily in Investment Banking where he has provided strategic, transactional and financing advice to broad range of E&P companies and majors. Rupert's Investment Banking career included Deutsche Bank, Bank of America and BMO Capital Markets where he was Co-Head of Investment & Corporate Banking EMEA. Rupert's extensive upstream experience includes corporate and asset transactions, strategic advisory, equity and debt capital markets and restructuring. Prior to joining IOG full time, Rupert was CEO of Edimis Energy Limited, an oil & gas advisory boutique - Edimis Energy Limited advised IOG on its strategic options and the farm-out transaction. Rupert has a BA in Economics from Cambridge University.

#### **Mark Hughes – Chief Operating Officer**

Mark started his career at Shell International Exploration and Production in a number of roles including Head of Topsides Design for the Sole Pit Compression Project. Mark was Group Development Engineering Manager for LASMO UK plc and Group E&P Exploration and Operations Manager for Gaz de France, Paris. He was also Managing Director of GDF Britain and GDF Country Manager. He was founder and CEO of Hibernia Energy, an independent Southern North Sea focussed gas developer. Mark was made Head of Development for RWE Dea UK where he was responsible for the RWE operated North Sea Breagh and Clipper South Developments from inception to first gas, representing some £880 million gross investment. Upon the sale of RWE Dea UK to INEOS, Mark was made Commercial Director UK at INEOS Breagh. Mark is a Chartered Member of the Institute of Mechanical Engineers and has a technical background with a first-class Honours degree in Civil Engineering from the University of Southampton.

#### **Esa Ikaheimonen - Non-Executive Director (appointed 14 March 2019)**

Esa has over 25 years of oil and gas industry experience and strong board level expertise. He is currently the CFO and Executive Director of London listed E&P company Genel Energy plc and a Non-Executive Chairman of Lamor Corporation, a leading environmental service company. Esa's previous non-executive experience includes roles at Ahlstrom Corporation, global supplier of fibre-based products, and at Vantage Drilling International, a major offshore drilling contractor. Previously, in addition to these non-executive roles, Esa was Executive Vice President and CFO of Transocean, the world's largest offshore drilling company. Prior to Transocean, Esa enjoyed a 20-year career at Royal Dutch Shell, culminating in the role of Vice President Finance for Shell Africa E&P. He holds a master's degree in Law from the University of Turku, specialising in tax law and tax planning. Esa is Senior Independent Non-Executive Director and chairs the Company's Audit Committee.

#### **Neil Hawkings – Non-Executive Director (appointed 24 May 2019)**

Neil Hawkings has over 35 years' experience in the upstream oil and gas sector. At ConocoPhillips, Neil played key roles in the successful development of both their Southern North Sea gas business, and their gas business in Indonesia. His final role was as Managing Director at Britannia Operator Limited (BOL), where he led production, development and commercial activities at the Britannia gas condensate field. Neil then served as Operations Director at Premier Oil Plc, responsible for operational and development activities across their global portfolio. He holds a Master's Degree in Chemical Engineering from Cambridge University. Neil chairs the Company's HSE and Technical Committee.

## Remuneration Policy

Remuneration comprises a mix of salary and bonus payments and equity incentives.

In June 2019 the Company asked h2glenfern Remuneration Advisory to carry out a review of its executive, senior team and non-executive director remuneration arrangements and make recommendations for development in the light of the substantial progress made by the Company during 2019 and its position, profile, strategy and outlook on completion of the CalEnergy Resources Limited farm-out. The work covered Board and Executive Committee - Board Chair, NEDs, CEO, CFO, COO, Head of Corporate Finance and the General Counsel and Company Secretary and included a full salary, benefits and incentives review and a view of general structure of benefits and incentives across the Company.

## 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 and employees. Accordingly, the Board adopted a 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.

In April 2019 the Company replaced its existing LTIP share option scheme with a Company Share Option Scheme ('CSOP') and expanded the issue of options under the CSOP to all employees.

## Salary Sacrifice Arrangements

During the year, resulting from cash constraints on the Company and a desire to ensure that these limited resources were focussed on operations, the service agreements of certain 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 18 to the financial statements.

## Corporate Governance Statement

The Directors recognise the importance of sound corporate governance. The Company has adopted the Quoted Companies Alliance Corporate Governance Code 2018 ("Code") to the extent considered appropriate for a company of its size.

The ten 'Principles of the Code' are set out below with details as to how the Company complies with each principle and explanations of why if it does not.

## DELIVER GROWTH

### 1. Establish a strategy and business model which promote long-term value for shareholders

The Company's strategy is to target stranded assets and dormant discoveries, especially those near to Company-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 Southern North Sea.

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 Southern North Sea makes strategic sense and will help deliver energy security in the UK.

The aim is to build upon the existing Core development gas assets in order to achieve a diversified and balanced portfolio of near and long-term developments, ideally with appraisal upside that complements the existing operations. This may 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 UK Continental Shelf ('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 also acquires low cost development ready assets through the Licensing Round system and has been active in all UKCS Licensing Rounds since the Company was formed.

**Corporate Governance Statement** (continued)

The Company seeks to operate all its assets. Operatorship is strategically important for several reasons: firstly, third party consents to tie in additional discoveries are easier to facilitate for operators of owned infrastructure. Secondly, 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. Finally, in the UK licensing rounds, certain licences will only be made available to pre-qualified operators.

**Key Challenges**

**Asset availability** - the Company maintains a full time technical, commercial and legal staff with relevant UK Southern North Sea experience. Assets are available through pro-active M&A activity and through Licensing Rounds. Opportunities arising through this route are screened and valued by the team and if returns are considered attractive bids are submitted.

**Asset Operations** - once accepted into the portfolio assets are reviewed and progressed through development by the technical and commercial team. The Company seeks to operate all its assets and the technical, commercial and legal teams are experienced in this area.

**Financing of Activity** - the Company finances its Portfolio through a mixture of debt, equity and farm-down proceeds. The Company maintains a skilled Finance Team to deliver its funding. This approach also applies to new assets to be integrated into the portfolio.

**Corporate Governance Statement** (continued)

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

This Business Strategy is communicated and updated annually in the Annual Report and Accounts.

**2. Seek to understand and meet shareholder needs and expectations**

The Company remains committed to listening and to communicating openly with its shareholders to ensure that its strategy, business model and performance are clearly understood. Understanding what analysts and investors think about the Company and in turn, helping these audiences understand our business, is a key part of driving our business forward and we actively seek dialogue with the market.

We do so via investor roadshows, attending investor conferences, hosting capital markets days, our website and our regular reporting.

Private shareholders

The AGM is the main forum for dialogue with shareholders and the Board. The Notice of Meeting is sent to shareholders at least 21 days before the meeting. The Directors routinely attend the AGM and are available to answer questions raised by shareholders. For each vote, the number of proxy votes received for, against and withheld is announced at the meeting. The outcome of the resolutions proposed at the AGM are subsequently published on the Company's corporate website.

To contact the Company, please email [info@iog.co.uk](mailto:info@iog.co.uk)

Institutional shareholders

The Directors actively seek to build a relationship with institutional shareholders. Shareholder relations are managed primarily by the Head of Corporate Finance and Investor Relations supported by the Chief Executive Officer and executive team, as appropriate. The Chief Executive Officer and Chief Financial Officer make presentations to analysts throughout each year and immediately following the release of the full-year and half-year results.

The Board is kept informed of the views and concerns of major shareholders by briefings from the Executive Team. Any significant investment reports from analysts are also circulated to the Board. The Non-Executive Chair and Senior Independent Director are available to meet with major shareholders if required to discuss issues of importance to them.

A form to contact the Company is available on the Company website. To request any information or meetings please contact [info@iog.co.uk](mailto:info@iog.co.uk)

General Market Updates

The Company makes regular updates to the market on its commercial progress at all stages of executing on its strategy.

**3. Consider wider stakeholder and social responsibilities and their implications for long-term success.**

Engaging with our stakeholders strengthens our relationships and helps us make better business decisions to deliver on our commitments. The Board is regularly updated on wider stakeholder engagement feedback to stay abreast of stakeholder insights into the issues that matter most to them and our business and to enable the Board to understand and consider these issues in decision-making.

Employees

The Company has upgraded its employee processes and personnel. A new Employee Handbook has been developed to reflect the expansion of employee numbers in late 2019 and covers employment matters including maternity and paternity leave arrangements, equal opportunities and dignity at work, anti-harassment and bullying, IT and communication systems, social media, flexible working, disciplinary procedure, grievance procedure, code of conduct/ anti-corruption and bribery, whistleblowing, data protection and HSE. This is intended to improve the communication of the Company's principles and policies with our staff and contractors. It encapsulates the Company's Code of Conduct by which all staff and contractors are expected to comply.

**Corporate Governance Statement** (continued)

Suppliers

Potential suppliers are considered in light of their suitability to comply with the Company's HSE and other policies. As part of the process to submit Field Development Plans to the OGA, the Company has developed a Supply Chain Action Plan.

Health, Safety and Environment ('HSE')

Community consultation

Public consultations on the Environmental Impact Assessment (EIA) of the Blythe and Vulcan gas hub developments were conducted in February 2018 and May 2018 respectively, and a further public consultation was conducted in September 2019 following the decision to include Southwark as part of our Core Project Phase 1 development comprising Blythe, Elgood and Southwark. Regulatory approval of the EIA by the BEIS Offshore Petroleum Regulator for Environment and Decommissioning ('OPRED') is expected to occur during Q2 2020. The low carbon footprint achieved through the use of minimum facilities offshore platforms and the re-use of existing pipeline infrastructure remains an increasingly valued feature of our Phase 1 development and an integral element to our sustainability proposition.

HSE and Technical Committee

Our corporate governance arrangements continue to be developed. Following its establishment in 2018 the Board HSE and Technical Committee met throughout 2019 and provided oversight and direction for strategy and conduct across the broad spectrum of environmental, safety and health considerations for the business.

Risk

Management and our HSE Manager conducted a detailed HSE risk review of operations as a key part of management's review of overall corporate risk to ensure that leadership, culture and management systems are in place to consider HSE in its broadest sense. The results were considered by the Board as part of the year end process and are kept under ongoing review.

The Harvey appraisal well, 48/24b-6, was drilled in August and September 2019 using the Maersk Resilient jack-up rig with no Lost Time Incidents. The Board receives an HSE report from the COO at the beginning of every board meeting and any actions for follow up are identified. HSE and Technical Committee minutes are circulated to members of the Board.

The Company continues to maintain and develop capability and capacity to undertake its role as appointed offshore operator of the fields within which it holds a licence interest. In addition to support the acquisition of further licence interests and offshore field developments, the focus over the coming months will be the safe and environmentally responsible construction and installation of Phase 1 infrastructure, the drilling of offshore production wells and preparations for first gas anticipated in Q3 2021.

The Company has implemented logistical and organisational changes to underpin its resilience to COVID-19, with the key focus being protecting all personnel, minimising impact on critical workstreams and ensuring business continuity.

**MAINTAIN A DYNAMIC MANAGEMENT FRAMEWORK**

**4. Embed effective risk management, considering both opportunities and threats, throughout the organisation**

Audit, risk and internal control

The Board of Directors are aware of their responsibility for establishing and communicating a system to manage risk and implement internal controls.

Operational risks are identified and assessed by management and any significant risks are reported to the Board. Financial and commercial risks are reviewed by the Board.

**Corporate Governance Statement** (continued)

The Board have reviewed the work of the executive management, which synthesised the key risks from a far broader assessment of all operational and corporate risks considered as part of the day to day operational and commercial management of the Company.

The Board and HSE and Technical Committee Chair were circulated with summaries of the risk analysis and discussed these informally before formal review at Board meetings.

The Company's internal control systems are designed to provide the directors with reasonable assurance that any problems are identified on a timely basis and dealt with appropriately. The Board considers the internal controls to be effective, but no system of internal control can provide absolute assurance against material misstatement or loss.

The Company will effectively review the risks faced by the business, considering both opportunities and threats and identify these in its annual report.

Further disclosures on risk and internal controls are set out below.



**Corporate Governance Statement** (continued)  
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. The Group has two main KPIs, the first of which is to cause no harm to people or the environment and the second of which was to sustain no Lost Time Incidents, both of which were met in 2019.

Principal Risks and Uncertainties

The Group operates in the oil and gas industry, an environment subject to a range of inherent risks and uncertainties. Key risks and associated mitigation are set out below.

<b>Finance:</b> Management seeks to generate shareholder returns through monetisation of a portfolio of proven offshore gas assets. This primarily entails construction and installation of production, transportation and processing infrastructure and drilling of production wells. These activities carry several key risks.	
<b>Risk</b>	<b>Risk</b>
Investor support may be eroded, impacting the company's market value and potentially hindering fundraising activities	<ul style="list-style-type: none"> <li>• Management has a clear strategy for value realisation and creation, which is regularly communicated to shareholders</li> <li>• The Company's asset portfolio has robust inherent economics as well as substantial incremental value, as attested by third-party analyst reports</li> <li>• The Company has fully funded its Phase 1 development and is therefore not anticipating raising additional capital in this regard</li> </ul>
Volatility in macroeconomic conditions may hinder delivery of the Company's business plan	<ul style="list-style-type: none"> <li>• The Company has fully funded its Phase 1 development and therefore has sufficient liquidity for its planned activities</li> <li>• As a buyer of products and services, the Company faces both risks and opportunities from economic volatility</li> </ul>
Each asset carries a range of potential values	<ul style="list-style-type: none"> <li>• The Company has a healthily diversified portfolio of 6 proven gas fields in its Core Project, plus further assets which could potentially be added, therefore there is limited financial dependence on a single asset</li> </ul>
The Company may not be able to raise funds to develop its assets	<ul style="list-style-type: none"> <li>• The Company successfully undertook equity, debt and farm-out funding from CER in 2019 which fully funded its Phase 1 activities, as detailed elsewhere in this report. With its current funding requirement met, the Company is anticipating production revenues from operations in 2H2021, which allows it then to begin to assess the funding requirements for the Phase 2, The Company will also have access to £65.0 million of funding carry from CER at that point</li> </ul>
The Company faces the risk of a breach of its Bond terms	<ul style="list-style-type: none"> <li>• The Company makes consistent efforts to be fully aware of its responsibilities and obligations under the Bond terms</li> <li>• The Company makes consistent efforts to manage the business within budget</li> <li>• Management calibrates key project commitments against bond conditions and covenants to ensure avoidance of any breach</li> </ul>
The administrators of London Oil and Gas Ltd ('LOG') may be obliged to divest its holding, creating downward pressure on the Company's market value	<ul style="list-style-type: none"> <li>• The Company notes that the administrators of London Capital &amp; Finance ("LCF"), with respect to LOG's holding in IOG, have stated publicly in December 2019 that they saw the market value of the Company at the time as a "significant discount to IOG's estimated net asset value". Management continues to have a positive engagement with the administrators and believe they intend to maximise the value of the LOG holding in IOG.</li> </ul>

## Corporate Governance Statement (continued)

<b>Operations:</b> Operations may not go to plan, leading to damage, pollution, cost overruns and poor outcomes	
<b>Risk</b>	<b>Mitigation</b>
Reservoir and subsurface uncertainty	<ul style="list-style-type: none"> <li>• Thorough subsurface mapping and reservoir modelling</li> <li>• High quality well design</li> <li>• Lessons learned during early wells applied to subsequent wells</li> </ul>
Departure from Schedule and Budget	<ul style="list-style-type: none"> <li>• Ensure the project team is populated with sufficient competent personnel</li> <li>• Award contracts to competent contractors</li> <li>• Test schedule and budget - rigorous schedule and budget control</li> <li>• Follow gate process, utilise peer reviews at appropriate project stages</li> </ul>
Market conditions for rig and marine vessel procurement may harden.	<ul style="list-style-type: none"> <li>• Contractual rates with existing platform and pipeline contracts have been fixed.</li> <li>• Issue advance ITTs to obtain prices for future services</li> <li>• Where possible incentivise contracts in order to minimise delivered cost.</li> </ul>
Scope 'creep' in required works at the Bacton Terminal	<ul style="list-style-type: none"> <li>• Develop a well-defined FEED during which the scope is stress tested</li> <li>• Implement and maintain a Management of Change process</li> <li>• Apply rigorous cost and schedule controls throughout Execution of works</li> </ul>
Cyber Security	<ul style="list-style-type: none"> <li>• Build an enhanced IT security plan and supporting procedures, including in particular:</li> <li>• Improve access right to systems and protocols</li> <li>• Enhance onboarding and leaving processes</li> </ul>
Resource estimates may be misleading curtailing actual reserves recovered	<ul style="list-style-type: none"> <li>• The Group deploys qualified personnel</li> <li>• Regular third-party reports are commissioned</li> <li>• A prudent range of possible outcomes are considered within the planning process</li> </ul>

<b>Regulatory and Legal:</b> The Group may be unable to meet its licence and regulatory obligations	
<b>Risk</b>	<b>Mitigation</b>
Delay in obtaining Offshore Field Development plan (FDP) consent, including Environmental consent for Phase 1	<ul style="list-style-type: none"> <li>• Expedite submission of final revision of EIA to BEIS and then expedite BEIS to grant EIA approval.</li> <li>• Liaison with OGA and other authorities to minimise delays in approvals</li> <li>• Fully prepare all relevant applications for prompt submission.</li> </ul>
Deficiency in Corporate Governance	<ul style="list-style-type: none"> <li>• Develop, implement and maintain a suitable suite of corporate procedures (e.g. Financial Operating Procedure).</li> <li>• All contracts to be authorised by Contracting and Procurement Function, General Counsel and Finance</li> </ul>

<b>Human Resources:</b> The Company relies upon a pool of experienced and motivated personnel to identify and execute successful investment strategies	
<b>Risks</b>	<b>Mitigation</b>
Key personnel may be lost to other companies	<ul style="list-style-type: none"> <li>• The Remuneration Committee regularly evaluates incentivisation schemes to ensure they remain competitive</li> </ul>
Difficulty in attracting the necessary talent as the Group moves into development of its projects	<ul style="list-style-type: none"> <li>• The Group continues to review and adopt attractive packages for both staff and contractors</li> </ul>

## Corporate Governance Statement (continued)

HSE and Sustainability	
Risks	Mitigation
Personal harm to those that may be affected by our undertakings	<ul style="list-style-type: none"> <li>Compliance with the UK regulatory goal setting regime for safety is established, implemented and maintained through the company leadership, culture and management systems for safety</li> </ul>
Adverse environmental effects of our activities including, in particular, contributing to Climate Change	<ul style="list-style-type: none"> <li>Strategic focus on natural gas as the preferential fossil fuel to provide a transition energy source to a renewables future</li> <li>Design and operation of low carbon footprint facilities, including re-use of existing infrastructure</li> </ul>

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
Stakeholder mis-alignment	<ul style="list-style-type: none"> <li>Regular interfacing with key stakeholders</li> <li>Understand stakeholders' priorities and drivers</li> <li>Build and maintain relationships with stakeholders</li> </ul>
Volatile commodity prices mean that the Company cannot be certain of the future sales value of its products	<ul style="list-style-type: none"> <li>Price mitigation strategies may be employed at the point of major capital commitment</li> <li>Gas may be sold under long-term contracts reducing exposure to short term fluctuations</li> <li>Oil and gas price hedging contracts may be utilised where viable</li> <li>Budget planning considers a range of commodity pricing</li> </ul>
Gas price volatility	<ul style="list-style-type: none"> <li>Continue to take advice from gas market experts.</li> <li>Progress discussions for possible future hedging.</li> </ul>
Brexit 'no-deal' at the end of 2020	<ul style="list-style-type: none"> <li>Major contracts for Phase 1 awarded or to be awarded in 2020.</li> <li>Maximise GBP content to minimise exposure to adverse FX rates</li> </ul>
The Group may not be able to get access, at reasonable cost, to infrastructure and product markets when required	<ul style="list-style-type: none"> <li>A range of different off-take options are pursued wherever possible</li> </ul>

COVID-19 Pandemic: Post period end the COVID-19 pandemic has created severe economic upheaval and unforeseeable disruptions to normal working practices around the world	
Risks	Mitigation
COVID-19 Pandemic and associated economic volatility materially disrupts the Company's ability to deliver its key corporate objectives	<ul style="list-style-type: none"> <li>The Company has already secured funding to achieve first gas and free cash flow, and is not dependent on current cash flows to fund itself</li> <li>The Company has implemented logistical and organisational changes to underpin its resilience to severe economic disruption driven by COVID-19, with the key focus being protecting all personnel, minimising impact on critical workstreams and ensuring business continuity</li> </ul>

## Corporate Governance Statement (continued)

### 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 2019 in view of the limited liquidity of longer dated UK gas futures and exposures carried during the year. As the Company's capital investment programmes increase, the Company will consider the use of appropriate hedging, seeking to retain 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 risks arising from the Group's use of financial instruments can be found in Note 20 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.

### Financial Controls

The Company has an established framework of internal financial controls, the effectiveness of which is regularly reviewed by the Executive Management, the Audit Committee and the Board in light of an ongoing assessment of significant risks facing the Company.

- In 2019 the Company commenced a review of its Group Financial Operating Policy which will be updated in the first half of 2020.
- The Financial Operating Policy is the framework to regulate the financial processes of the Group; from the concept of Group strategy through to the payment of invoices. The key objectives of the Financial Operating Policy are to: -
  - provide a clear framework for internal financial control;
  - define the levels of financial authority for Staff, Contractors, Directors and the Board;and
  - set out the processes for budgeting and financial reporting.
- The Board is responsible for reviewing and approving overall Company strategy, approving revenue and capital budgets and plans, and for determining the financial structure of the Company including treasury and tax.
- The Audit Committee assists the Board in discharging its duties regarding the financial statements, accounting policies and the maintenance of proper internal business and operational and financial controls, including the review of results of work performed by the Group controls function.
- There are comprehensive procedures for budgeting and planning, for monitoring and reporting to the Board business performance against those budgets and plans and for forecasting expected performance over the remainder of the financial period. These cover profits, cash flows, capital expenditure and balance sheets.
- The Company has a consistent system of prior appraisal for investments, overseen by the Chief Financial Officer and Chief Executive Officer, with defined financial controls and procedures with which each business area is required to comply in order to be granted investment funds for development.

### Non-financial Controls

The Board recognises that maintaining sound controls and discipline is critical to managing the downside risks to our plan.

The Board has ultimate responsibility for the Group's system of internal control and for reviewing its effectiveness. However, any such system of internal control can provide only reasonable, but not absolute, assurance against material misstatement or loss. The Board considers that the internal controls in place are appropriate for the size, complexity and risk profile of the Group. The principal elements of the Group's internal control system include:

**Corporate Governance Statement** (continued)

- Close management of the day-to-day activities of the Group by the Executive Directors.
- An organisational structure with defined levels of responsibility, which promotes entrepreneurial decision-making and rapid implementation while minimising risks.
- A comprehensive annual budgeting process.
- Detailed monthly reporting of performance against budget.
- Central control over key areas such as capital expenditure authorisation and banking facilities.

The Group continues to review its system of internal control to ensure compliance with best practice, while also having regard to its size and the resources available. As part of the Group's review a number of non-financial controls covering areas such as regulatory compliance, business integrity, health and safety, risk management, business continuity and corporate social responsibility have been assessed. The key elements of those non-financial controls are set out below.

Standards and Policies

The Board is committed to maintaining appropriate standards for all the Company's business activities and ensuring that these standards are set out in written policies and kept under review.

Approval Process

Contracts are required to be reviewed and signed off functionally by the CFO and General Counsel and signed by a Director of the Company. Major contracts require the internal sign off from 2 or more directors according to the financial procedures of the Company.

Re-assessment

The Company has a Business Risk Register with business continuity plans to address key risks that have an immediate impact. Risks facing the business are re-assessed and potential mitigating actions are considered and implemented to help protect against those risks.

**5. Maintaining the Board as a well-functioning, balanced team led by the Chair**

The Board currently comprises the Non-Executive Chair, three Executive Directors and two further Non-Executive Directors.

The Board considers, that Fiona MacAulay (Chair), Esa Ikaheimonen (Senior Independent Director) and Neil Hawkings its current three Non-Executive Directors, bring independent judgement to bear. Fiona MacAulay was previously the Company's Senior Independent Director. Both Charles Hendry and Martin Ruscoe were previously considered non-independent since they were appointees from the Company's major investor London Oil and Gas Limited, before their resignations on 23 April 2019.

During the year the following appointments were made strengthening the Board and the Company's governance:-

Esa Ikaheimonen – Non-Executive Director was appointed 13 March 2019 and is Senior Independent Director and Chair of the Audit Committee.

Neil Hawkings – Non-Executive Director was appointed 24 May 2019 and is Chair of the HSE and Technical Committee.

Rupert Newall – Chief Financial Officer was appointed 11 December 2019.

Robin Storey was appointed as General Counsel and Company Secretary on 9 January 2019.

Non-executive directors are expected to devote such time as necessary for proper performance of their duties. This includes regular attendance at Board, AGM, shareholder and committee meetings.

The Board is satisfied that it has a suitable balance between independence on the one hand and knowledge of the Company on the other to enable it to discharge its duties and responsibilities effectively.

All Directors are encouraged to use their independent judgement and to challenge all matters, whether strategic or operational. During the year at least six scheduled Board meetings take place and a number of additional meetings as may be required. These are held at IOG's head office in London.

**Corporate Governance Statement** (continued)

Key Board activities include:

- Considering our financial and non-financial policies.
- Discussing strategic priorities.
- Discussing the Group's capital structure and financial strategy, including capital investments and shareholder returns.
- Discussing internal governance processes.

**Directors' Conflict of Interest**

The Company has effective procedures in place to monitor and deal with conflicts of interest. The Board is aware of the other commitments and interests of its Directors and changes to these commitments and interests are reported, minuted and where appropriate, agreed with the rest of the Board.

Directors' Attendance:

<b>Director</b>	<b>Board</b>	<b>Audit Committee</b>	<b>Remuneration and Nominations Committee</b>	<b>HSE and Technical Committee</b>
Fiona MacAulay	Chair 30(32)	3(3)	Chair 9(9)	Chair 4(4)
Andrew Hockey	32(32)	-	-	6(6)
Rupert Newall	1(1)	-	-	-
Mark Hughes	30(32)	-	-	6(6)
Esa Ikaheimonen <sup>2</sup>	19(23)	Chair 1(1)	5(5)	-
Neil Hawkings <sup>3</sup>	15(17)	-	-	Chair 3(3)
Charles Hendry <sup>1</sup>	12(13)	1(2)	4(5)	-
Martin Ruscoe <sup>1</sup>	12(13)	Chair 2(2)	5(5)	-

1. Charles Hendry and Martin Ruscoe resigned as Directors on 23 April 2019.

2. Audit Committee chaired by Esa Ikaheimonen, following Martin Ruscoe's resignation on 23 April 2019.

3. HSE and Technical Committee chaired by Neil Hawkings from 23 July 2019.

## **6. Ensure that between them the Directors have the necessary up-to-date experience, skills and capabilities**

The Board is satisfied that, between the Directors, it has an effective and appropriate balance of skills and experience, including in the areas of technical Oil and Gas subsurface, project management, drilling and facilities experience and in the areas of banking, financial and commercial skills and experience. All Directors receive regular and timely information on the Group's operational and financial performance. Relevant information is circulated to the Directors by the Company Secretary in advance of meetings. The business reports monthly on its headline performance against its agreed budget and the Board reviews the monthly update on performance and any significant variances are reviewed at each meeting.

Relevant updates are provided by the General Counsel, external counsel, NOMAD and Brokers as required.

Two Non-Executive Directors are active in other companies in Executive and Non-Executive capacities.

All Directors retire by rotation at regular intervals in accordance with the Company's Articles of Association.

**Corporate Governance Statement** (continued)

Appointment, removal and re-election of Directors

The Board makes decisions regarding the appointment and removal of Directors and there is a formal, rigorous and transparent procedure for appointments. The Company's Articles of Association require that one-third of the Directors must stand for re-election by shareholders annually in rotation; that all Directors must stand for re-election at least once every three years; and that any new Directors appointed during the year must stand for election at the AGM immediately following their appointment.

The Board of directors has a mix of experience, skills and personal qualities that help deliver the strategy of the Company. The Company will ensure that between them the directors have the necessary up-to-date experience, skills and capabilities to deliver the Company strategy and targets. Each director is listed on the website and in the annual report along with a clear description of their role and experience.

The Board also evaluates the balance of skills, knowledge and experience on the Board and considers all new Board appointments and re-appointments against this evaluation.

Independent Advice

All Directors are able to take independent professional advice in the furtherance of their duties, if necessary, at the Company's expense. In addition, the Directors have direct access to the advice and services of the General Counsel and Company Secretary, the Chief Executive Officer and the Chief Financial Officer.

Experience, Skills and Capabilities

Biographical details of the directors and their relevant experience can be found on the Company website at the following link <https://www.iog.co.uk/about-us/board-and-management/>.

**7. Evaluate Board performance based on clear and relevant objectives, seeking continuous improvement.**

The Chair will continue to informally assess the individual contributions of each of the members of the team to ensure that Company strategy is effectively implemented, and that: -

- Their contribution is relevant and effective.
- That they are committed.
- Where relevant, they have maintained their independence.

The new board team has completed an internal review of individual and collective effectiveness and has identified a number of actions to ensure that the members of the Board collectively function in an efficient and productive manner as possible. This took the form of an adapted standard form questionnaire that was circulated by the Company Secretary, the results of which were summarised and discussed with the Chair. The results were collated under a traffic light system, together with suggested actions, which were circulated to the Board and then discussed in a full Board meeting, with agreed actions being minuted.

**8. Promote a culture that is based on ethical values and behaviours**

The Board aims to lead by example and do what is in the best interests of the Company.

The Company operates a corporate culture that is based on ethical values and behaviours. It maintains policies and processes that are appropriate to do this for a Company of its size. The Executive Directors communicate regularly with staff through town hall meetings and the move in January 2020 to new offices has greatly improved internal communication.

The Board has implemented a robust governance framework including a Code of Conduct, which includes the Company's Compliance with Anti-bribery and Corruption Policy that is incorporated in an updated Employee Hand Book and is communicated to all employees. The Code provides clear guidance on how the members of staff are expected to behave towards other colleagues, suppliers, customers, shareholders and on our wider responsibility to the communities within which we operate. All employees are expected to comply with the Code and any violations of it may be reported to local management or Group HR.

**Corporate Governance Statement** (continued)

## Anti-bribery and Corruption 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.

**9. Maintain governance structures and processes that are fit for purpose and support good decision-making by the Board**

## Board programme

The Board meets at least six times each year in accordance with its scheduled meeting calendar.

The Board sets direction for the Company through a formal schedule of matters reserved for its decision. Prior to the start of each financial year, a schedule of dates for that year's Board meetings is compiled to align as far as reasonably practicable with the Company's financial calendar while also ensuring an appropriate spread of meetings across the financial year. This may be supplemented by additional meetings as and when required.

During 2019, the Board met for its twelve scheduled meetings and a further twenty ad-hoc meetings, reflecting a year of transformation. The Board and its subcommittees receive appropriate and timely information prior to each meeting; a formal agenda is produced for each meeting and Board and Committee papers are distributed several days before meetings take place. Any Director may challenge Company proposals and decisions are taken democratically after discussion. Any Director who feels that any concern remains unresolved after discussion may ask for that concern to be noted in the minutes of the meeting, which are then circulated to all Directors by the Company Secretary. Any specific actions arising from such meetings are agreed by the Board or relevant Committee and then followed up by the Company's executive management.

## Roles of the Board, Chair and Chief Executive Officer.

The Board is responsible for the long-term success of the Company. There is a formal schedule of matters reserved to the Board. It is responsible for overall Group strategy; approval of major investments (whether Capex or Opex); approval of the annual and interim results; annual budgets and Board structure. It monitors the exposure to key business risks and reviews the strategic direction of all trading subsidiaries, their annual budgets and their performance in relation to those budgets. There is a clear division of responsibility at the head of the Company. The Chair is responsible for running the business of the Board and for ensuring appropriate strategic focus and direction. The Chief Executive Officer is responsible for proposing the strategic focus to the Board, implementing it once it has been approved and overseeing the management of the Company through the Executive Team.

All Directors receive regular and timely information on the Group's operational and financial performance. Relevant information is circulated to the Directors in advance of meetings. The business reports monthly on its headline performance against its agreed budget and the Board reviews the monthly update on performance and any significant variances are reviewed at each meeting. Senior executives below Board level attend Board meetings where appropriate to present business updates. Board meetings throughout the year are held at the Company's head office.

## Executive Team

The Executive Team comprises Andrew Hockey the Chief Executive Officer, Rupert Newall the Chief Financial Officer, Mark Hughes the Chief Operating Officer, James Chance the Head of Corporate Finance and Investor Relations and Robin Storey, General Counsel and Company Secretary. They are responsible for formulation of the proposed strategic focus for submission to the Board, the day-to-day management of the Group's businesses and its overall trading, operational and financial performance in fulfilment of that strategy, as well as plans and budgets approved by the Board of Directors. The Executive Team also manages and oversees key risks, management development and corporate responsibility programmes. The Chief Executive Officer reports to the Board on issues, progress and recommendations for change. The controls applied by the Executive Team to financial and non-financial matters are set out earlier in this document and the effectiveness of these controls is regularly reported to the Audit Committee and the Board.

## Board Committees

The Board is supported by the Audit Committee, Remuneration and Nomination Committee and the HSE and Technical Committee. Each subcommittee has access to such resources, information and advice as it deems necessary, at the cost of the Company, to enable the committee to discharge its duties. The terms of reference of each committee are as follows: -



**Corporate Governance Statement** (continued)

**Audit Committee**

The Audit Committee comprises Esa Ikaheimonen (Chair) and Fiona MacAulay. The Audit Committee has primary responsibility for monitoring the quality of internal controls and ensuring that the financial performance of the Group is properly measured and reported on. In addition, it receives, and reviews reports from the Company's management and auditors. The Audit Committee met three times during the year and ordinarily meets at least twice a year. It has unrestricted access to the Company's Auditors. Martin Ruscoe was Chair of the Audit Committee until his resignation as director on 23 April 2019 at which point Esa Ikaheimonen was appointed Chair and Charles Hendry was a member of the Audit Committee until his resignation as director on 23 April 2019.

**Remuneration and Nominations Committee**

The Remuneration and Nominations Committee comprises Fiona MacAulay (Chair) and Esa Ikaheimonen. 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 Committee leads the process for Board appointments and makes recommendations for maintaining an appropriate balance of skills on the Board. The Remuneration & Nominations Committee met nine times during the year reflecting a year of transformation and, ordinarily, at least twice a year.

Other Directors, including the Chief Executive, are invited to attend as appropriate and only if they do not have a conflict of interest. The Committee was also assisted by executive and industry remuneration consultants during the year to advise it on the roll out of new packages to reflect the significant growth of the Company. Martin Ruscoe and Charles Hendry resigned as members of the Remuneration and Nominations Committee on 23 April 2019.

**HSE and Technical Committee**

The HSE and Technical Committee comprises Neil Hawkings (Chair) Fiona MacAulay, Andrew Hockey and Mark Hughes. Ian Pollard, the Company's HSE Manager acts as Secretary to the Committee. The HSE and Technical Committee determines the Company's Environmental Management Policy, its Health and Safety Management Policy and directs the overall governance of the Company's Subsurface and Technical Management policies. The HSE and Technical Committee met six times during the year. Fiona MacAulay was Chair of the Committee until the appointment of Neil Hawkings as Chair on 23 July 2019.

**BUILD TRUST**

**10. Communicate how the Company is governed and is performing by maintaining a dialogue with shareholders and other relevant stakeholders**

The Company communicates with shareholders through the Annual Report and Accounts, full-year and half-year interim announcements, the Annual General Meeting ('AGM'), General Meetings ('GMs') and one-to-one meetings with large existing or potential new shareholders. Investor Relations are managed by the Executive Team and email queries from private individual shareholders are handled with responses limited to clarifying information that is already in the public domain.

In regard to a general meeting of the Company, once the meeting has concluded the results of the meeting are released through a regulatory news service and a copy of the announcement is posted on the Company's website. If it became relevant an explanation of actions where a significant proportion of votes (e.g. 20% of votes received) is cast against a resolution would be provided.

A range of corporate information (including all Company announcements, third party reports, summaries of key assets and presentations) is also available to shareholders, investors and the public on the Company's corporate website, <https://www.iog.co.uk>.

**Corporate Governance Statement** (continued)

The Board receives regular updates on the views of shareholders from the Chairman, the Chief Executive Officer and the Chief Financial Officer. The Company's PR consultants Vigo Communications provides monthly reports on public forum comments about the Company and the Company's Nominated Advisor finnCap provides weekly reports on share price performance and comparisons with our peer group. The Company communicates with institutional investors frequently through briefings with management. In addition, analysts' notes and brokers' briefings are reviewed to achieve a wide understanding of investors' views. All annual reports and interim statements since the Company was formed are available on the Company's website at <https://www.iog.co.uk/investors/results-reports-and-presentations/#currentPage=1>.

Website AIM Rule 26 Page

The AIM Rule 26 page of the website includes this Corporate Governance Statement and information or links to the statutory information regarding: -

- Description of the business
- Details and biographies of the Board of Directors
- Description of main Board committees and their responsibilities
- Details of any restrictions on the transfer of AIM securities
- Number of securities in issue
- Identity and percentage holding of significant shareholders, including Directors' shareholdings and shareholders with more than 3% of the stock
- Current Annual Report & Accounts
- Current constitutional documents
- Admission Document

The Company website is updated regularly.

On behalf of the Board

**Robin Storey**  
**General Counsel and Company Secretary**  
25 March 2020

## 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 2019. 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 can be found in the Strategic Report / Finance Review.

### Dividend

The Directors do not recommend the payment of a dividend (2018: £nil).

### Political contributions

No payments to political parties have been made during the year (2018: nil).

### Future Developments

Following the transformational year for the Group with significant monies raised via share issues, Bond placement and the asset Farm-out to CalEnergy Resources Limited, the Group is now focused on delivering the Phase 1 project to commence gas delivery in Q3 2021, full details of which are included in the Strategic Report.

### Directors and their Interests

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

Fiona MacAulay

Andrew Hockey

Rupert Newall (appointed 11 December 2019)

Mark Hughes

Esa Ikaheimonen (appointed 14 March 2019)

Neil Hawkings (appointed 23 May 2019)

Rt. Hon. Charles Hendry (resigned 23 April 2019)

Martin Ruscoe (resigned 23 April 2019)

Directors' biographies and committee memberships are set out in the Corporate Governance section from pages 19 to 34.

The Group has provided the directors with third party indemnity insurance of £25 million for 2019/20 (2018/19 - £25 million)

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 2019	At 31 December 2018
Andrew Hockey	710,729	-
Rupert Newall <sup>[1]</sup>	3,667,050	-
Mark Hughes	593,770	178,000
Fiona MacAulay	200,000	-
Esa Ikaheimonen	500,000	-

[1] Also includes people related to, or persons closely associated to Rupert Newall.

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

**Report of the Directors** (continued)

**Substantial Shareholdings**

Except for the holdings of ordinary shares listed below, the Company has not been notified by or become aware of any persons holding 3% or more of the 480,173,245 issued ordinary shares of 1p each of the Company at 23 March 2020.

<b>Shareholder</b>	<b>Number</b>	<b>%</b>
London Oil and Gas Limited (in administration)	143,011,359	29.78%
Lombard Odier Asset Management (Europe) Limited	121,882,066	25.38%
Richard Griffiths and controlled undertakings	29,997,380	6.25%
Azvalor Asset Management S.G.I.I.C., S.A.	26,307,242	5.48%
Remainder	158,975,198	33.11%
<b>Total</b>	<b>480,173,245</b>	<b>100%</b>

**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,

**Financial Instruments**

Information on financial instruments can be found in Note 25 to the financial statements.

**Related Parties**

Information on related party transactions can be found in Note 24 to the financial statements.

**Subsequent Events**

Information on subsequent events can be found in Note 26 to the financial statements.

**Shareholder Communications**

The Company has a website, [www.iog.co.uk](http://www.iog.co.uk), to provide information to shareholders.

## Statement of Directors' Responsibilities

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

Company law requires the directors to prepare financial statements for each financial year. Under that legislation the directors have elected to prepare the Group and Company financial statements in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the European Union. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Company and of the profit or loss of the Group for that period. The directors are also required to prepare financial statements in accordance with the rules of the London Stock Exchange for companies trading securities on the Alternative Investment Market ('AIM').

In preparing these financial statements, the directors are required to: -

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

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

### Website publication

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

### 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

**Andrew Hockey**  
**Chief Executive Officer**  
25 March 2020

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

### Opinion

We have audited the financial statements of Independent Oil and Gas Plc (the 'Parent Company') and its subsidiaries (the 'Group') for the year ended 31 December 2019 which comprise the consolidated statement of comprehensive income, the consolidated and company statements of changes in equity, the consolidated statement of financial position, the company statement of financial position, the consolidated cash flow statement, the company cash flow statement and notes to the financial statements, including a summary of significant accounting policies.

The financial reporting framework that has been applied in the preparation of the financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and as regards the Parent Company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 December 2019 and of the Group's loss for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the Parent Company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Group and the Parent Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- The Directors use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- The Directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

### Key audit matters

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

### **Accounting for farm-out to CalEnergy Resources Limited**

On 26 July 2019 the Group entered into binding agreements to farm-out 50 per cent of its Southern North Sea assets to include the Thames Pipeline and associated Thames Reception Facilities to CalEnergy Resources Limited ('CER'). Details of the transaction are set out in note 12.

Given the materiality of the assets disposed and significance of the transaction to the Group we consider this to be a key audit matter.

#### **How we addressed the key audit matter in our audit**

- Obtained, read and confirmed to deliverables the key terms of the farm-out agreements
- Verified the cash received to the bank receipt
- Determined the appropriateness of the effective date of the transaction to the underlying documentation
- Analysed, verified and re-performed an assessment of the carrying value of the disposed assets at the effective date of the transaction
- Re-calculated the profit on disposal recognised in the consolidated income statement
- Assessed and confirmed the appropriateness of the disclosure relating to the future royalty, as a contingent liability against the provisions of the relevant accounting standard
- Assessed and confirmed the appropriateness of the disclosure relating to the Group's future development carry by CER
- Evaluated the remaining disclosures relating to the transaction as presented in the financial statements to ensure that they were prepared in accordance with the requirements of the accounting standards.

#### **Key observation**

We found the Group's accounting treatment for the farm-out and the disclosures presented in the financial statements to be appropriate.

### **Accounting for the conversion of and restructuring of debt due to London Oil & Gas Limited**

As detailed in note 12, during the year the Group had five loan facilities with London Oil & Gas Limited ('LOG'). During the year ended 31 December 2019 three loans were repaid, one was converted into equity and one other which was considered redeemed.

Given the complex nature of the instruments and the judgement and estimation required by Management in the determination of the accounting for the loan amendments we consider this area to be a key audit matter.

#### **How we addressed the key audit matter in our audit**

- Reviewed the various LOG and Company loan agreements in order to confirm and evaluate the accounting treatment adopted by Management against the relevant accounting standards
- Recalculated the carrying values of the loans at their respective settlement, conversion or redemption dates
- Verified the loan repayments settled from the proceeds from the farm-out to supporting documentation
- Verified the share capital and share premium recognised for the loan converted to the statutory records
- Assessed and verified the impact on the cashflow statement included within the annual report of the fund flows arising from the loan amendments
- Performed a recalculation of the present value of the remaining loan payments for the redeemed loan at the date of redemption. Sensitivity analysis over key inputs, such as the discount rate, applied by Management was also performed
- Assessed, challenged and sensitised Management's bifurcation of the convertible loan note drawn-down in the period
- Confirmed the accounting for the redemption and bifurcation of loans had been correctly performed
- Reviewed the disclosures of the loan conversions and restructuring made in the financial statements against the requirements of the accounting standards.

**Key observation**

Following the completion of our work and discussions with Management we found the Group's accounting treatment for the LOG loans, the associated judgments and estimates applied in the accounting treatment and the disclosures in the financial statements to be appropriate. .

**Our application of materiality**

Group materiality FY 2019	Group materiality FY 2018	Basis for materiality
<b>£2,300,000</b>	£550,000	1.6% of total assets (2018: 1.4% of total assets)

Total Assets was determined as an appropriate basis as the principal focus of the Group, remains fundamentally focussed on the development of its oil and gas assets. As such, we consider the shareholders will look to the balance sheet and total assets of the Group in order to understand the level of investment. The materiality increased due to the significant increase in the total assets of the Group at year end.

Materiality for the Parent Company was set at £1,700,000 (2018: £410,000) and was restricted to 75% of Group materiality (2018: 75% of Group materiality).

We apply the concept of materiality both in planning and performing our audit and in evaluating the effect of misstatements. We consider materiality to be the magnitude by which misstatements, including omissions, could influence the economic decisions of reasonable users that are taken on the basis of the financial statements. Importantly, misstatements below these levels will not necessarily be evaluated as immaterial as we also take account of the nature of identified misstatements, and the particular circumstances of their occurrence, when evaluating their effect on the financial statements as a whole.

Performance materiality is the application of materiality at the individual account or balance level set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole. Performance materiality was set at 75% (2018: 75%) of the above materiality levels for both Group and Company.

We agreed with the Audit Committee that we would report to the Committee all individual audit differences identified during the course of our audit in excess of £40,000 (2018: £10,000).

Whilst materiality for the financial statements as a whole was £1,700,000 each significant component of the Group was audited to a lower level of materiality ranging from £100,000 to £400,000 which was used to determine the financial statement areas that were included within the scope of the Component audits and the extent of sample sizes used during the audit.

**An overview of the scope of our audit**

Our Group audit scope focused on the Group's principal activities and the reporting entities in which these operations were held. As a result we determined that there were three significant components and all of these were subject to a full scope audit. Together with the parent company and its Group consolidation, which were both also subject to a full scope audit, these represent the significant components of the Group.

The remaining components of the Group were considered non-significant and these components were principally subject to analytical review procedures, together with additional substantive testing over the risk areas detailed above where applicable to that component.

The audits of each of the components were performed in the UK. All of the audits were conducted by BDO LLP.



## **Other information**

The Directors are responsible for the other information. The other information comprises the information included in the Report and Audited Financial Statements other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

## **Opinions 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 the 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 Parent 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 in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

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

## **Responsibilities of Directors**

As explained more fully in the Directors' responsibilities statement the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Group's and the Parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or the Parent Company or to cease operations, or have no realistic alternative but to do so.

### **Auditor's responsibilities for the audit of the financial statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website : [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.

### **Use of our report**

This report is made solely to the Parent 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 Parent Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Parent Company and the Parent Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

### **Anne Sayers (Senior Statutory Auditor)**

For and on behalf of BDO LLP, Statutory Auditor  
London, UK

25 March 2020

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

## Consolidated Statement of Comprehensive Income

	Notes	2019 £000	2018 £000
Administration expenses		(2,622)	(974)
Impairment of oil and gas properties	10	-	(184)
Project, pre-licence and exploration expenses		(4,027)	(922)
Net loss on settlement of liabilities		-	(106)
Profit on farm-down of assets	6	24,340	-
Foreign exchange gain/(loss)		238	(334)
		<hr/>	<hr/>
Operating profit/(loss)	3	<b>17,929</b>	<b>(2,520)</b>
Finance expense	5	(7,939)	(3,124)
Finance income		34	-
Gain on loan modification	7	5,005	-
		<hr/>	<hr/>
Profit/(loss) for the year before taxation		<b>15,029</b>	<b>(5,644)</b>
Taxation	8	-	-
		<hr/>	<hr/>
<b>Profit/(loss) and total comprehensive profit/(loss) for the year attributable to equity holders of the parent</b>	9	<b>15,029</b>	<b>(5,644)</b>
		<hr/>	<hr/>
<b>Profit/(loss) for the year per ordinary share – basic</b>	9	<b>5.1p</b>	<b>(4.6p)</b>
<b>Profit/(loss) for the year per ordinary share – diluted</b>	9	<b>3.7p</b>	<b>(4.6p)</b>

The profit of for the year £15.0 million (2018: loss £5.6 million) arose from continuing operations.

The Notes on pages 49 to 92 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
<b>Group:</b>	£000	£000	£000	£000	£000
At 1 January 2018	1,203	22,337	3,099	(31,405)	(4,766)
Loss for the year	-	-	-	(5,644)	(5,644)
Total comprehensive loss attributable to owners of the parent	-	-	-	(5,644)	(5,644)
Issue of warrants	-	-	4,190	-	4,190
Issue of share options	-	-	378	-	378
Exercise of share options	66	-	(1,359)	1,359	66
<b>At 31 December 2018</b>	<b>1,269</b>	<b>22,337</b>	<b>6,308</b>	<b>(35,690)</b>	<b>(5,776)</b>
Profit for the year	-	-	-	15,029	15,029
Total comprehensive profit attributable to owners of the parent	-	-	-	15,029	15,029
Issue of share capital	3,483	27,086	-	-	30,569
Lapse of warrants	-	-	(31)	31	-
Issue of share options	-	-	676	-	676
Exercise of share options	50	-	(601)	601	50
<b>At 31 December 2019</b>	<b>4,802</b>	<b>49,423</b>	<b>6,352</b>	<b>(20,029)</b>	<b>40,548</b>
<b>Company:</b>					
At 1 January 2018	1,203	22,337	3,099	(3,912)	22,727
Loss for the year	-	-	-	(2,604)	(2,604)
Total comprehensive profit attributable to owners of the parent	-	-	-	(2,604)	(2,604)
Issue of warrants	-	-	4,190	-	4,190
Issue of share options	-	-	378	-	378
Exercise of share options	66	-	(1,359)	1,359	66
<b>At 31 December 2018</b>	<b>1,269</b>	<b>22,337</b>	<b>6,308</b>	<b>(5,157)</b>	<b>24,757</b>
Loss for the year	-	-	-	(7,010)	(7,010)
Total comprehensive loss attributable to owners of the parent	-	-	-	(7,010)	(7,010)
Issue of share capital	3,483	27,086	-	-	30,569
Lapse of warrants	-	-	(31)	31	-
Issue of share options	-	-	676	-	676
Exercise of share options	50	-	(601)	601	50
<b>At 31 December 2019</b>	<b>4,802</b>	<b>49,423</b>	<b>6,352</b>	<b>(11,535)</b>	<b>49,042</b>

**Share capital** - Amounts subscribed for share capital at nominal value.

**Share premium** - Amounts received on the issue of shares, in excess of the nominal value of the shares.

**Share-based payment reserve** - Amounts reflecting fair value of options and warrants issued.

**Accumulated losses** - Cumulative net losses recognised in the Statement of Comprehensive Income net of amounts recognised directly in equity.

The Notes on pages 49 to 92 form part of these financial statements.

## Consolidated Statement of Financial Position

	Notes	2019 £000	2018 £000
<b>Non-current assets</b>			
Intangible assets: exploration & evaluation	10	13,099	2,352
Intangible assets: other	10	80	3
Property, plant and equipment: development & production	11	28,921	41,527
Property, plant and equipment: other	11	1,071	41
Restricted cash	19	49,230	-
		<b>92,401</b>	<b>43,923</b>
<b>Current assets</b>			
Other receivables and prepayments	15	5,092	672
Restricted cash	19	32,836	-
Cash and cash equivalents	19	16,197	702
		<b>54,125</b>	<b>1,374</b>
<b>Total assets</b>		<b>146,526</b>	<b>45,297</b>
<b>Current liabilities</b>			
Loans	16	-	(6,934)
Trade and other payables	16	(7,231)	(11,137)
		<b>(7,231)</b>	<b>(18,071)</b>
<b>Non-current liabilities</b>			
Loans	17,20	(89,243)	(22,884)
Provisions	17	(9,504)	(10,118)
		<b>(98,747)</b>	<b>(33,002)</b>
<b>Total liabilities</b>		<b>(105,978)</b>	<b>(51,073)</b>
<b>NET ASSET / (LIABILITIES)</b>		<b>40,548</b>	<b>(5,776)</b>
<b>Capital and reserves</b>			
Share capital	18	4,802	1,269
Share premium	18	49,423	22,337
Share-based payment reserve		6,352	6,308
Accumulated losses		(20,029)	(35,690)
		<b>40,548</b>	<b>(5,776)</b>

The financial statements were approved and authorised for issue by the Board of Directors on 25 March 2020 and were signed on its behalf by:

**Rupert Newall**  
**Chief Financial Officer**  
 25 March 2020

The Notes on pages 49 to 92 form part of these financial statements.

**Company Statement of Financial Position**

<b>Company Number: 07434350</b>	<b>Notes</b>	<b>2019 £000</b>	<b>2018 £000</b>
<b>Non-current assets</b>			
Intangible assets	10	80	3
Property, plant and equipment	11	1,071	41
Investments	13	15,486	17,197
Amounts due from subsidiaries	13	28,710	29,526
Restricted cash	19	49,230	-
		<b>94,577</b>	<b>46,767</b>
<b>Current assets</b>			
Other receivables and prepayments	15	2,513	672
Restricted cash	19	31,586	-
Cash and cash equivalents	19	16,197	702
		<b>50,296</b>	<b>1,374</b>
<b>Total assets</b>		<b>144,873</b>	<b>48,141</b>
<b>Current liabilities</b>			
Trade and other payables	16	<b>(5,944)</b>	<b>(8,071)</b>
<b>Non-current liabilities</b>			
Loans	17	(89,243)	(14,054)
Provisions	17	(644)	(1,259)
		<b>(89,887)</b>	<b>(15,313)</b>
<b>Total liabilities</b>		<b>(95,831)</b>	<b>(23,384)</b>
<b>NET ASSETS</b>		<b>49,042</b>	<b>24,757</b>
<b>Capital and reserves</b>			
Share capital	18	4,802	1,269
Share premium	18	49,423	22,337
Share-based payment reserve		6,352	6,308
Accumulated losses		(11,535)	(5,157)
		<b>49,042</b>	<b>24,757</b>

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

The Company loss for the year was £7.0 million (2018: loss £2.6 million).

The financial statements were approved and authorised for issue by the Board of Directors on 25 March 2020 and were signed on its behalf by: -

**Rupert Newall**  
**Chief Financial Officer**  
 25 March 2020

The Notes on pages 49 to 92 form part of these financial statements.

**Consolidated Cash Flow Statement**

	Notes	2019 £000	2018 £000
<b>Profit/(loss) for the year</b>	7	15,029	(5,644)
Depreciation, depletion and amortisation		244	9
Exploration asset write off		-	184
Loss on settlement of liabilities		-	106
Share based payments		675	187
Movement in trade and other receivables		(4,420)	(812)
Movement in trade and other payables		(620)	(415)
Profit on disposal of fixed assets	6	(24,340)	-
Interest received		(35)	(2)
Gain on loan modification		(5,005)	-
Finance fees		7,939	3,206
Foreign exchange differences		238	142
<b>Net cash used in operating activities</b>		<b>(10,295)</b>	<b>(3,039)</b>
<b>Investing activities</b>			
Purchase of intangible and tangible assets		(17,048)	(14,327)
Movement in restricted cash		(87,646)	-
Interest received		35	2
Farm out proceeds received <sup>[1]</sup>		22,389	-
Acquisitions <sup>[2]</sup>	10	-	-
Initial Thames Reception Facility ("TRF") decommissioning security		(2,000)	-
Farm out proceeds received in respect of ("TRF") decommissioning security		1,000	-
Initial Thames Pipeline decommissioning security		250	(500)
Lease liability payments		(236)	-
<b>Net cash used in investing activities</b>		<b>(83,256)</b>	<b>(14,825)</b>
<b>Financing activities</b>			
Proceeds from issue of equity instruments of the Group		18,675	67
Issue costs in relation to issue of equity		(1,288)	-
Proceeds from issue of Norwegian Bond		90,439	-
Cash received from loans	25	3,925	18,787
Finance fees paid		(2,705)	(433)
<b>Net cash generated from financing activities</b>		<b>109,046</b>	<b>18,421</b>
Net increase in cash and cash equivalents		15,495	557
Cash and cash equivalents at the beginning of the year		702	145
<b>Cash and cash equivalents at end of year</b>	19	<b>16,197</b>	<b>702</b>

[1] Proceeds from the farm out were received net of funds which were settled to LOG for loans and interest totalling £17,139k and legal fees £472k

[2] The Thames Reception Facility at Bacton was acquired for £1.00

The Notes on pages 49 to 92 form part of these financial statements.

## Company Cash Flow Statement

	Notes	2019 £000	2018 £000
<b>Loss for the year</b>	18	(7,010)	(2,604)
Depreciation charges		244	8
Loss on settlement of liabilities	3	-	106
Share based payments		675	138
Movement in trade and other receivables		(1,841)	(312)
Movement in trade and other payables		(2,205)	(415)
Inter-company service charge uplift		(165)	(206)
Interest received		(35)	(2)
Finance fees		6,596	1,322
Gain on loan modification		(5,005)	-
Foreign exchange differences		289	142
		<hr/>	<hr/>
<b>Net cash used in operating activities</b>		<b>(8,457)</b>	<b>(1,823)</b>
<b>Investing activities</b>			
Purchase of intangible and tangible assets		(297)	(573)
Movement in restricted cash		(87,646)	-
Loans to subsidiary undertakings		(19,339)	(15,470)
Proceeds from subsidiary undertakings		22,389	-
Interest received		35	2
Lease liability payments		(236)	-
		<hr/>	<hr/>
<b>Net cash used in investing activities</b>		<b>(85,094)</b>	<b>(16,041)</b>
<b>Financing activities</b>			
Proceeds from issue of equity instruments of the Company		18,675	67
Issue costs in relation to issue of equity		(1,288)	-
Proceeds from issue of Norwegian Bond (net of costs)		90,439	-
Cash received from loans	23	3,925	18,787
Finance fees paid		(2,705)	(433)
		<hr/>	<hr/>
<b>Net cash generated from financing activities</b>		<b>109,046</b>	<b>18,421</b>
Net (decrease) / increase in cash and cash equivalents		15,495	557
Cash and cash equivalents at the beginning of the year		702	145
		<hr/>	<hr/>
<b>Cash and cash equivalents at end of year</b>	17	<b>16,197</b>	<b>702</b>
		<hr/> <hr/>	<hr/> <hr/>

The Notes on pages 49 to 92 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 2019 were authorised for issue by the Board of Directors on 25 March 2020 and the balance sheets were signed on the Board's behalf by the CFO, Rupert Newall.

#### 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 within this Note 1 on pages 61 and 62.

The consolidated financial statements have been prepared on a historical cost basis.

#### Going concern

The Board has reviewed the Group's cash flow forecasts up until September 2021 having regard to its current financial position and operational objectives and has concluded that the Group is able to continue as a going concern.

During 2019 the Group announced it had successfully completed a number of financial transactions to provide not only the required liquidity to sustain its ongoing overhead costs but to also enable it to progress and approve the Phase 1 development programme, delivering production and sales of gas from its SNS Core Project Phase 1 assets (Blythe, Elgood & Southwark) utilising its previously acquired Thames pipeline and newly acquired Thames Reception Facilities at Bacton.

In April 2019 the Group successfully restructured its debt from LOG with equity and raised additional funds of £18.9 million by way of a placing, subscription and open offer, enabling the Group to fund the Harvey well and progress its business and Core Project through to farm-out completion. In September 2019 IOG raised €100 million (£90.4 million), before fees, via a Senior Secured Bond listed on the Oslo Børs thereby completing its financial capability to deliver its Phase 1 project. Finally, in October 2019, the Group completed the 50% farm-out of its assets (excluding the Harvey licences) to CalEnergy Resources Limited, providing an additional £40 million of proceeds upon completion, of which £17.1 million was used to repay LOG debt. Following the farm-out the Board and CER took the Final Investment Decision for Phase 1 of the Core Project.

The Group is primarily now in a development phase of operations with a number of related projects to complete and it is the Board's opinion that the Group has the skills and financial resources to deliver Phase 1 of the Core Project.

In the current business climate, the Directors acknowledge the COVID-19 pandemic and have implemented logistical and organisational changes to underpin the organisation's resilience to COVID-19, with the key focus being protecting all personnel, minimising impact on critical workstreams and ensuring business continuity. The Company's funding over the next period is from cash balances, drawdown of the remaining Phase 1 Development Carry from CER and drawings from the funds raised in the €100 million bond. The Phase 1 Development Carry continues to be drawn down and is guaranteed by CER's parent company which provides the Directors significant comfort. The undrawn proceeds from the €100 million bond are held in escrow with DNB Bank ASA. As we embark on a phase of key contracting, the precipitous fall in oil prices driven by the COVID-19 demand shock and the significant global oversupply situation also creates potential opportunities to drive down costs in the context of our efforts to deliver Phase 1 as cost-efficiently as possible and the Directors see this as part of its strategy to mitigate impacts from the COVID-19 pandemic.

**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. New or amended financial standards or interpretations adopted during the year and that have a significant impact upon the financial statements are detailed below.

(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 3	Definition of a Business (Amendments to IFRS 3)	1 January 2020
IAS1, IAS8	Definition of Material (amendments to IAS1 and IAS 8)	1 January 2020
n/a	Amendments to References to the Conceptual Framework in IFRS Standards	1 January 2020
IFRS 17	Insurance Contracts	1 January 2021

In reviewing the above standards, the Company does not believe that there will be a material impact on the financial statements.

**IFRS 16 'Leases'**

IOG adopted IFRS 16 Leases ('IFRS 16') with effect from 1 January 2019. IFRS 16 was issued in January 2016 to replace IAS 17 Leases.

IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases, with limited exceptions, under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. Under IFRS 16, at the commencement date of a lease, a lessee is required to recognise a liability to make lease payments ('lease liability') and an asset representing the right to use the underlying asset during the lease term ('right-of-use asset'). Lease liabilities are measured at the present value of future lease payments over the reasonably certain lease term. Variable lease payments that do not depend on an index or a rate are not included in the lease liability. Such payments are expensed as incurred throughout the lease term.

In applying IFRS 16 for the first time the Group has applied the short-term lease practical expedient by not recognising lease liabilities in respect to lease arrangements with a remaining lease term of less than 12 months as at 1 January 2019. The Group adopted the modified retrospective approach to adoption on 1 January 2019, measuring right-of use assets at an amount based on their respective lease liability on adoption, with the cumulative effect of adopting the standard recognised at the date of initial application without restatement of comparative information.

Lessees are required to separately recognise the interest expense associated with the unwinding of the lease liability and the depreciation expense on the right-of-use asset. These costs replace amounts previously recognised as operating expenditure in respect of operating leases in accordance with IAS 17.

## 1 Accounting policies (continued)

### 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.

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.

### Asset Acquisition

In the event of an asset acquisition, the cost of the acquisition is assigned to the individual assets and liabilities based on their relative fair values. All directly attributable costs are capitalised. Contingent consideration is accrued for when these amounts are considered probable and are discounted to present value based on the expected timing of payment.

### 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 Expenses'.

#### 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 overheads, 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 ('2P') reserves on an entitlement basis.

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.

##### *Borrowing costs*

*Borrowing costs directly attributable to the construction of qualifying assets, which are assets that necessarily take a substantial period of time to prepare for their intended use, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use. All other borrowing costs are recognised as interest payable in the statement of comprehensive income in accordance with the effective interest method.*

## 1 Accounting policies (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. Such indicators would include but not limited to:

- (i) adequate and sufficient data exists that render the resource uneconomic and unlikely to be developed;
- (ii) title to the asset is compromised;
- (iii) budgeted or planned expenditure is not expected in the foreseeable future, and
- (iv) insufficient discovery of commercially viable resources leading to the discontinuation of activities.

## 1 Accounting policies (continued)

### Oil and gas exploration, development and producing assets (continued)

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.

### 3) 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 PPE. 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. The cost of development and production assets also include the cost of acquisitions and purchases of such assets, directly attributable overheads, applicable borrowing costs and the cost of recognising provisions for future consideration payments - see Note 10 and Note 11. The discounted cost for future decommissioning is also added to the D&P asset.

#### *Depreciation and depletion*

All costs relating to a development are accumulated and not depreciated/depleted until the commencement of production. Depletion is calculated on a UOP basis based on the 2P reserves of the asset. Any re-assessment of reserves affects the depletion 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 depletion 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. If any indicators are identified, a review of D&P assets is carried out on an 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)**

### **Oil and gas exploration, development and producing assets (continued)**

#### **4) Offshore Pipelines**

##### *Capitalisation*

Costs of commissioning an offshore pipeline to transport hydrocarbons, including the cost of related onshore facilities and subsea equipment are capitalised as a tangible asset within PPE. Each contiguous pipeline will form an exclusive individual asset but there may be cases, such as phased developments, when pipelines are grouped together to form a single tangible pipeline asset. The cost of offshore pipeline assets also includes the cost of acquisitions and purchases of such assets, directly attributable overheads, applicable borrowing costs and the discounted cost of future decommissioning.

##### *Depreciation*

All costs relating to pipeline commissioning are not depreciated until the commencement of transportation of hydrocarbons. Depreciation is calculated on a straight-line basis over the period in which transportation is likely to take place. Any re-assessment of this timeline will impact on the depreciation rate prospectively. The key areas of estimation regarding depreciation are future capital expenditures and recoverable reserves for those fields where such pipelines are utilised for the transportation of oil and gas production.

##### *Impairment*

A review is carried out for any indication that the carrying value of the pipeline asset may be impaired. If any indicators are identified, such as the pipeline's inability to continue to operate safely and effectively in its current environment, a review of the pipeline asset is carried out. Impairment resulting from the impairment review is charged to a separate line item within the Statement of Comprehensive Income.

## 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.

### Provisions

Provisions are recognised when:-

- the Group has a present legal or constructive obligation resulting from past events;
- it is more likely than not that an outflow of resources will be required to settle the obligation; and
- the amount can be reliably estimated.

### 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 and/or pipeline asset, since the future cost of decommissioning is regarded as part of the total investment to gain access to future economic benefits, this is included as part of the cost of the relevant D&P and/or pipeline asset.

### Disposals

Net proceeds from any disposal of an E&E, D&P or pipeline asset are initially credited against the previously capitalised costs of that asset and any surplus or shortfall proceeds are credited or debited to the Statement of Comprehensive Income.

For the Farm down of an E&E, D&P or pipeline asset, proceeds from the farm-down are credited against the previously capitalised costs of the asset and any surplus or shortfall proceeds above or below the representative percentage of the carrying value of the asset or assets being farmed down are credited or debited to the Statement of Comprehensive Income accordingly.

### Foreign currencies

The Group's presentational currency is GBP Sterling and has been selected based on the currency of the primary economic environment in which the Group operates. The Group's primary product is generally traded by reference to its pricing in GBP Sterling. The functional currency of all companies in the Group is also considered to be GBP Sterling. Transactions in currencies other than the functional currency of a company are recorded at a rate of exchange approximating to that prevailing at the date of the transaction. At each balance sheet date, monetary assets and liabilities that are denominated in currencies other than the functional currency are translated at the amounts prevailing at the balance sheet date and any gains or losses arising are recognised in the Consolidated Statement of Comprehensive Income.

### 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

## 1 Accounting policies (continued)

### Taxation (continued)

recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, 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 and recognised in accordance with IFRS9. The loans have no maturity date and are not repayable until the respective subsidiary entity has sufficient cash to repay the loan, however they are technically due on demand.

### Leases

In January 2016, the IASB issued IFRS 16 "Leases" ("IFRS 16"), which requires entities to recognise right-of-use ("ROU") assets and lease obligations on the statement of financial position.

The Group adopted IFRS 16 on 1 January 2019 using the modified retrospective approach. The modified retrospective approach does not require restatement of prior period financial information, instead recognising the cumulative effect as an adjustment to the opening retained earnings and the Group applied the standard prospectively.

The Group has applied the standard while using the following optional expedients permitted under the standard:-

- Short-term leases – those with terms of 12 months or less at date of adoption
- Low-value leases – those with a value less than £5,000

On 1 January 2019, the Group recognised a cumulative increase to ROU assets of £1.1 million for leases previously classified as operating leases, directly offset to the lease obligations. The weighted average incremental borrowing rate used to determine the lease obligation at adoption was approximately 11.5%. The assets and lease obligations related to the adoption of IFRS 16, relate to office leases and the Thames Pipeline permission to cross the foreshore.

The Company depreciates the ROU assets on a straight-line basis over the length of the lease unless management determines this is not representative of the useful life, in which case, management will estimate the useful life of the asset to be used.



## 1 Accounting policies (continued)

### Financial Instruments

Financial instruments are recognised when the Group becomes a party to the contractual provisions of the instrument and are subsequently measured at amortised cost.

#### Classification and measurement of financial assets

The initial classification of a financial asset depends upon the Group's business model for managing its financial assets and the contractual terms of the cash flows. The Group's financial assets are measured at amortised cost and are held within a business model whose objective is to hold assets to collect contractual cash flows and its contractual terms give rise on specified dates to cash flows that represent solely payments of principal and interest.

The Group's cash and cash equivalents and other receivables are measured at amortised cost. Other receivables are initially measured at fair value. The Group holds other receivables with the objective to collect the contractual cash flows and therefore measures them subsequently at amortised cost.

The Group has no financial assets measured at FVOCI (Fair Value Through Other Comprehensive Income) or FVTPL (Fair Value Through the Statement of Profit or Loss)

#### *Restricted cash*

Restricted cash includes cash balances that are subject to access restrictions or have conditions attached to their drawdown. Included in this are monies raised from its Norwegian bond placing held in escrow and subject to defined drawdown conditions. Also included are balances held as collateralised security in the Group's name for future expenditures such as Decommissioning.

#### *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.

#### Impairment of financial assets

The Group recognises loss allowances for expected credit losses ('ECL's) on its financial assets measured at amortised cost. Due to the nature of its financial assets, the Group measures loss allowances at an amount equal to the lifetime ECLs. Lifetime ECLs are the anticipated ECLs that result from all possible default events over the expected life of a financial asset. ECLs are a probability-weighted estimate of credit losses. The company has carried out an analysis of the balances outstanding at the end of the period and assessed the likelihood of repayment from its subsidiaries. It believes that there is no significant increase in credit risk from the prior year and, if anything, the position is strengthened with the sanction of the phase 1 project resulting in future cashflows for its subsidiaries.

#### Classification and measurement of financial liabilities

A financial liability is initially classified as measured at amortised cost or FVTPL. A financial liability is classified as measured at FVTPL if it is held-for-trading, a derivative or designated as FVTPL on initial recognition.

The Group's accounts payable, accrued liabilities and long-term debt are measured at amortised cost.

Accounts payable and accrued liabilities are initially measured at fair value and subsequently measured at amortised cost. Accounts payable and accrued liabilities are presented as current liabilities unless payment is not due within 12 months after the reporting period.

Long-term debt is initially measured at fair value, net of transaction costs incurred. The contractual cash flows of the long-term debt are made up of solely principal and interest, therefore long-term debt is subsequently measured at amortised cost. Long-term debt is classified as current when payment is due within 12 months after the reporting period.

Where warrants are issued in lieu of arrangement fees on debt facilities, the fair value of the warrants are measured at the date of grant as determined through the use of the Black-Scholes technique. The fair value determined at the grant

## 1 Accounting policies (continued)

### Financial instruments (continued)

date of the warrants is recognised in the Group's warrant reserve and is amortised as a finance cost over the life of the facility.

The Group has no financial liabilities measured at FVTPL.

The outstanding LOG loans are unsecured against any assets or Company of the Group.

### Convertible loan notes

Upon issue, convertible notes are assessed as to whether it is necessary to separate the loan into an equity and liability component at the date of issue. If the bifurcation is considered material the liability component is recognised initially at its fair value. Subsequent to initial recognition, it is carried at amortised carrying value using the effective interest method until the liability is extinguished on conversion or redemption of the notes. The equity component is the residual amount of the convertible note after deducting the fair value of the liability component. This is recognised and included in equity and is not subsequently re-measured.

During the year, the Company re-negotiated the terms of its February 2018 convertible loan. The loan was considered to have been redeemed under the provisions of IFRS 9 and the resulting improvement in terms created a £5.0 million gain on loan redemption. The loan redemption gain was assessed by reference to the fair value of the remaining cashflows of the 2018 convertible loan note. The gain reflects the improvement in terms between the 2018 and the replacement 2019 loan due to the zero coupon rate attached to the 2019 loan and the extended maturity date to redemption.

### 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 options, to certain employees and contractors, as direct compensation for both salary and fees sacrificed in lieu of such share options. Other Long-Term Incentive Plan ('LTIP') and Company Share Ownership Plan ('CSOP') share options may be awarded to incentivise and reward successful corporate and individual 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.

The fair value of share options awarded, in lieu of salary sacrifice, is expensed on the effective date of grant, with no vesting conditions applied. The fair value is deemed to be the actual salary sacrificed.

For LTIP and CSOP share option awards, based upon incentive and performance, the 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 early exercise. The inputs to the model include: the share price at the date of grant; exercise price; expected

## **1 Accounting policies (continued)**

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.

The fair value of warrants issued to third parties is calculated by reference to the service provided, or if this is not considered possible, calculated in the same way as for LTIP share options as detailed above. Typically, these amounts have related to debt issues and are included in the effective interest rate calculation of borrowings.

### **Profit or Loss earnings per share**

Profit or 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.

The following are the critical judgements that management has made in the process of applying the entity's accounting policies and that have the most significant effect on the amounts recognised in financial statements.

#### *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 11 and 12. The carrying value of related investments in the Company Statement of Financial Position is disclosed on page 46. E&E 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.

#### *Key estimates used in the assessment of value in use and fair value less costs to sell assessments*

As noted in the accounting policy the carrying value of the assets is assessed against the higher of a value-in-use calculation and a fair value less costs to sell assessment.

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

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

The fair value less costs to see assessment considered the proceeds arising from the Group's farm-down of its assets to CalEnergy and the indicative value derived from the transaction.

#### Commercial Reserves

Commercial reserves are proven and probable ('2P') 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.

#### Production volumes/recoverable reserves

Annual estimates of oil and gas reserves are generated internally by the Group with external input from operator profiles and/or a Competent Person. These are reported annually by 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 UKNBP 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 and/or third-party duty holder budgets.

## 1 Accounting policies (continued)

### 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 and/or service contractor cost estimates or specific contracts where available.

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

### 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 (2018: 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 (linked to recoverable reserves) and commodity prices.

### Farm-in date

The assumed farm-in date of a disposal transaction can vary the carrying value of assets and in turn, effect the profit or loss on disposal amount that is recognised in the statement of comprehensive income. Where appropriate the Group has applied judgement to the cut-off date of the farm-out to CER to ensure that the numbers represented the fundamentals of the transaction.

### Investments (Company)

If circumstances indicate that impairment may exist, investments in and the value of any loans to 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 or loan amount due, an impairment charge is recorded in the Company. Evaluation of impairments on such investments involves significant management judgement and may differ from actual results.

### Decommissioning

At 31 December 2019, the Group has obligations in respect of decommissioning a suspended well on the Vulcan Satellites D&P asset, together with the offshore Thames Pipeline and the acquired Thames Reception Facility at Bacton.

The extent to which a provision is recognised depends on the legal requirements at the date of decommissioning, regulatory activity required to ensure such infrastructure meets safety and environmental requirements, 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, and advice from the UK Oil & Gas Authority, to estimate costs of abandonment.

On acquisition of the Thames Pipeline, the Group assumed the decommissioning liability for the pipeline, which is based upon a regulatory framework determined by the OGA. A discounted cost estimate provision has been made in the financial statements as at 31 December 2019 and this provision will continue to be reviewed on an annual basis, given the regulatory framework is subject to constant change and is inherently uncertain over future years.

On acquisition of the Thames Reception Facility at Bacton, the Group assumed the initial decommissioning liability for the asset which was cash collateralised, which is based upon a contractual obligation with Perenco. A provision has been made in the financial statements as at 31 December 2019. This provision will be reviewed on an annual basis and reassessed once the development has been completed. 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 Accounting policies (continued)

### *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 above for further details of these assumptions.

## 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 Southern North Sea.

## 3 Operating Costs

The Group's operating profit (2018: loss) is stated after charging/(crediting) the following:

	<b>2019</b>	2018
	<b>£000</b>	£000
Fees payable to the Company's auditor:		
for the audit of the Group's financial statements	80	58
Of which:		
for the audit of the Company's financial statements <sup>1</sup>	50	58
For the audit of the Subsidiaries financial statements <sup>1</sup>	30	-
Depreciation, depletion and amortisation	244	9
Project, pre-licence and exploration expenses	4,027	922
Impairment of oil and gas properties	-	184
Profit on farm-down of assets	(24,340)	-
Personnel costs – direct expenses	2,060	847
Personnel costs - share-based payments	675	378
Net loss on settlement of liabilities	-	106
Foreign exchange (gain)/loss	(238)	334

<sup>1</sup> 2018 audit fees were paid and borne by the parent company and noted in each subsidiaries accounts.

#### 4 Personnel costs and directors' remuneration

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

	<b>2019</b>	2018
	<b>Number</b>	Number
Management / technical / operations	26	18
of which: Directors	6	5
<b>Personnel costs Group and Company</b>	<b>£000</b>	£000
Wages, salaries, fees and other direct costs	2,440	1,882
Social security costs	344	232
Pension costs	3	1
Share-based payments	675	378
	<hr/>	<hr/>
	<b>3,462</b>	2,493
	<hr/> <hr/>	<hr/> <hr/>

Note that project contract personnel, capitalised directly to project cost centres, are excluded from the above personnel cost figures.

Key management personnel are deemed to be Directors, Chief Financial Officer, General Counsel and the Head of Corporate Finance.

On 11 December 2019 the Chief Financial Officer was appointed a Director; until that date, neither the Chief Financial Officer nor the Head of Corporate Finance were Directors.

4 Personnel costs and directors' remuneration (continued)

Directors' remuneration	Salary/Fees	Salary/Fees Sacrificed	Bonus	Share-based payment	2019 Total	Salary	Share-based payment	2018 Total
	£000	£000	£000	£000	£000	£000	£000	£000
Fiona MacAulay	125	-	-	-	125	17	-	17
Esa Ikaheimonen <sup>3</sup>	-	34	-	-	34	-	-	-
Neil Hawkings <sup>4</sup>	25	4	-	-	29	-	-	-
Andrew Hockey	211	57	266	94	628	179	118	297
Rupert Newall <sup>5</sup>	13	-	-	-	13	-	-	-
Mark Hughes	144	39	181	31	395	90	52	142
Mark Routh <sup>6</sup>	-	-	-	159	159	141	52	193
Martin Ruscoe <sup>1</sup>	-	13	-	-	13	15	15	30
Andrew Hay	-	-	-	-	-	11	8	19
Charles Hendry <sup>2</sup>	5	12	-	-	17	15	15	30
	<b>523</b>	<b>159</b>	<b>447</b>	<b>284</b>	<b>1,413</b>	<b>468</b>	<b>260</b>	<b>728</b>
Other key management personnel	691	80	363	12	1,146	143	79	222
<b>Total key management personnel</b>	<b>1,214</b>	<b>239</b>	<b>810</b>	<b>296</b>	<b>2,559</b>	<b>611</b>	<b>339</b>	<b>950</b>

1 Martin Ruscoe resigned on 23 April 2019;

2 Charles Hendry resigned on 23 April 2019;

3 Esa Ikaheimonen was appointed on 14 March 2019;

4 Neil Hawkings was appointed on 24 May 2019;

5 Rupert Newall was appointed on 11 December 2019, prior to that his remuneration is captured in 'other key management personnel'.

6 Mark Routh resigned on 31 December 2018. The share-based payment represents the exercise of his options granted prior to his resignation.

The salary amounts are those cash amounts paid to directors and key management personnel during the year. The share-based payment amounts represent the fair value of options issued and/or expensed in the year, for LTIPs / CSOPs and those in lieu of cash salary and/or director fees paid. In addition to the above, an amount of £1,188 (2018: £470) was paid in employer pension contributions for Mark Hughes.

Social security costs for the year for key management personnel were £240k (2018 - £134k).

For the current directors at 31 December 2019, the service agreements provide that the full contractual amount will be paid in cash. In addition, there was the option to voluntarily elect to sacrifice up to 25% cash and receive the equivalent amount in share options. The salary sacrifice option was removed for all Directors with effect from October 2019, except for Esa Ikaheimonen who has sacrificed all his fees for share options since joining the Company.

The average proportions of monthly salaries paid in cash and share options in 2019 for all directors is as follows:

	Cash	Shares
Fiona MacAulay	100%	0%
Andrew Hockey	79%	21%
Mark Hughes	79%	21%
Rupert Newall <sup>1</sup>	100%	0%
Esa Ikaheimonen	0%	100%
Neil Hawkings	81%	19%

1. Rupert Newall sacrificed an average of 23% of his 2019 salary before being appointed as a Director on 11 December 2019.

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.



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

Amounts of salary and/or fees outstanding at 31 December 2019 to which these terms relate totalled £34k (31 December 2018 – £76k) for directors and key management personnel and £17k (2018 - £11k) for other personnel. These share options are yet to be issued.

Directors' interests in options on 1p ordinary shares of the Company at 31 December 2019 were as follows:

	Granted	Type	Total 31 Dec 2018	Awarded in 2019	(Exercised) in 2019	Total 31 Dec 2019	Exercise price	Expiry date	
Andrew Hockey	1 Sep 2017	Salary Sacrifice	110,800	-	(110,800)	-	1p	31 Aug 2022	
	1 Mar 2018	Salary Sacrifice	102,537	-	(102,537)	-	1p	28 Feb 2023	
	1 Mar 2018	LTIP	1,600,000	-	-	1,600,000	20p	28 Feb 2028	
	1 Sep 2018	Salary Sacrifice	128,700	-	(128,700)	-	1p	31 Aug 2023	
	28 Feb 2019	Salary Sacrifice	-	146,730	(146,730)	-	1p	28 Feb 2024	
	1 May 2019	CSOP	-	1,600,000	-	1,600,000	12.75p	30 Apr 2029	
	31 Aug 2019	Salary Sacrifice	-	267,740	-	267,740	1p	31 Aug 2024	
				1,942,037	2,014,470	(488,767)	3,467,740		
Mark Hughes	27 Jul 2018	LTIP	-	1,000,000	-	1,000,000	35p	27 July 2028	
	1 Sep 2018	Salary Sacrifice	-	62,417	(62,417)	-	1p	31 Aug 2023	
	28 Feb 2019	Salary Sacrifice	-	99,776	(99,776)	-	1p	28 Feb 2024	
	1 May 2019	CSOP	-	1,000,000	-	1,000,000	12.75p	30 Apr 2029	
	31 Aug 2019	Salary Sacrifice	-	186,063	-	183,063	1p	31 Aug 2024	
			-	2,348,256	(162,193)	2,183,063			
Rupert Newall	28 Feb 2019	Salary Sacrifice	-	94,911	(94,911)	-	1p	28 Feb 2024	
	1 May 2019	CSOP	-	1,200,000	-	1,200,000	12.75p	30 Apr 2029	
	31 Aug 2019	Salary Sacrifice	-	240,966	-	240,966	1p	31 Aug 2024	
				-	1,535,877	(94,911)	1,440,966		
Esa Ikaheimonen	1 May 2019	LTIP	-	600,000	-	600,000	12.75p	30 Apr 2029	
	31 Aug 2019	Salary Sacrifice	-	136,606	-	136,606	1p	31 Aug 2024	
			-	736,606	-	736,606			
Fiona MacAulay	1 May 2019	LTIP	-	1,000,000	-	1,000,000	12.75p	30 Apr 2029	
				-	1,000,000	-	1,000,000		
Neil Hawkings	24 May 2019	LTIP	-	600,000	-	600,000	13.5p	28 Feb 2024	
	31 Aug 2019	Salary Sacrifice	-	18,061	-	18,061	1p	31 Aug 2024	
				-	618,061	-	618,061		
Martin Ruscoe <sup>1</sup>	1 Sep 2017	Salary Sacrifice	44,699	-	(44,699)	-	1p	31 Aug 2022	
	1 Mar 2018	Salary Sacrifice	34,179	-	(34,179)	-	1p	28 Feb 2023	
	1 Sep 2018	Salary Sacrifice	30,888	-	(30,888)	-	1p	31 Aug 2023	
	28 Feb 2019	Salary Sacrifice	-	46,954	(46,954)	-	1p	28 Feb 2024	
	31 Aug 2019	Salary Sacrifice	-	72,481	(72,481)	-	1p	31 Aug 2024	
			109,766	119,435	(229,201)	-			
Charles Hendry	1 Sep 2017	Salary Sacrifice	39,745	-	-	39,745	1p	31 Aug 2022	
	1 Mar 2018	Salary Sacrifice	34,179	-	-	34,179	1p	28 Feb 2023	
	1 Sep 2018	Salary Sacrifice	30,888	-	-	30,888	1p	31 Aug 2023	
	28 Feb 2019	Salary Sacrifice	-	35,215	-	35,215	1p	28 Feb 2024	
	31 Aug 2019	Salary Sacrifice	-	67,708	-	67,708	1p	31 Aug 2024	
				104,812	102,923	-	207,735		
Mark Routh	19 Nov 2014	Salary Sacrifice	218,672	-	(218,672)	-	1p	31 Aug 2019	
	1 Mar 2015	Salary Sacrifice	638,361	-	(638,361)	-	1p	28 Feb 2020	
	31 Aug 2015	Salary Sacrifice	611,601	-	(611,601)	-	1p	31 Aug 2020	
	1 Mar 2016	Salary Sacrifice	888,494	-	(888,494)	-	1p	28 Feb 2021	
	31 Aug 2016	Salary Sacrifice	365,550	-	(365,550)	-	1p	31 Aug 2021	
	1 Mar 2017	Salary Sacrifice	298,628	-	(298,628)	-	1p	28 Feb 2022	
	31 Aug 2017	Salary Sacrifice	147,507	-	(147,507)	-	1p	31 Aug 2022	
	28 Feb 2018	Salary Sacrifice	112,791	-	(112,791)	-	1p	28 Feb 2023	
	31 Aug 2018	Salary Sacrifice	110,553	-	(110,553)	-	1p	31 Aug 2023	
	28 Feb 2019	Salary Sacrifice	-	42,876	(42,876)	-	1p	28 Feb 2024	
				3,392,157	42,876	(3,435,033)	-		

<sup>1</sup> Options granted to South Riding Consultancy Limited, a company in which Martin Ruscoe is a majority shareholder and a director.

**5 Finance expense**

	<b>2019</b>	2018
	<b>£000</b>	£000
Interest on loans	<b>1,928</b>	1,493
Interest on deferred payment creditors	<b>140</b>	373
Amortisation of loan finance charges	<b>4,357</b>	617
Current year loan finance charges	<b>566</b>	49
Current year finance charges on deferred payment creditors	<b>54</b>	-
Unwinding of discount on convertible loan	<b>258</b>	-
Unwinding of deferred consideration provisions	<b>636</b>	592
	<u><b>7,939</b></u>	<u>3,124</u>

**6 Profit on Farm-down of assets**

	<b>2019</b>	2018
	<b>£000</b>	£000
Proceeds	<b>40,000</b>	-
Disposals:		
Intangible Assets	<b>(150)</b>	-
Property, plant & equipment	<b>(15,510)</b>	-
Profit on Farm-down of assets	<u><b>24,340</b></u>	<u>-</u>

**7 Gain on loan modification**

In October 2019, the Company completed a restructuring of its remaining debt with London Oil and Gas Limited. The convertible debt and interest (£11.6 million) pertaining to the £10.0 million facility dated 21 February 2018 was restructured into a new convertible loan which allows for the conversion of the loan into 60,872,631 shares at a strike price of 19 pence until maturity. The new loan has an extended maturity date of 23 September 2024, is unsecured, subordinated to other debt the Group holds and incurs interest at the rate of zero percent. The Company calculated the gain reflecting the improvement in terms between the 2018 and 2019 loan under the provisions of IFRS 9 to be £5.0 million, using an effective interest rate of 11.5%, and has recognised this gain in the Statement of Comprehensive Income.

**8 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:

	<b>2019</b> <b>£000</b>	2018 £000
Profit / (Loss) for the year	15,029	(5,644)
Income tax expense	-	-
Profit / (Loss) before income taxes	<u>15,029</u>	<u>(5,644)</u>
Expected tax expense/(credit) based on the standard rate of United Kingdom corporation tax at the domestic rate of 40% (2018: 40%)	6,012	(2,258)
Difference in tax rates	1,892	826
Expenses / (income) not deductible for tax purposes	1,552	137
Income not taxable/allowable	(4,199)	(2,617)
Disposal	(22,722)	-
Unrecognised taxable losses carried forward	17,465	3,912
Total tax expense	<u>-</u>	<u>-</u>

**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 £124.7 million (2018:£80.7 million). There are also accelerated capital allowances of £33.4m (2018:£32.6m)

The Group has not recognised a deferred tax asset at 31 December 2019 on the basis that the Group would expect the point of recognition to be when the Group has some level of production history showing that the Group is making profits in line with the underlying economic model which would support the recognition."

**9 Profit/(loss) per share**

	<b>2019</b>	2018
	<b>£000</b>	£000
Profit /(loss) for the year attributable to shareholders (Numerator)	<b>15,029</b>	(5,644)
Weighted average number of ordinary shares: basic (Denominator)	<b>297,560,956</b>	123,581,926
Add potentially dilutive shares:		
LOG convertible share	-	205,265,850
Convertible loan notes	60,872,631	-
Salary/Fee sacrifice options	3,511,871	6,628,423
LTIP/CSOP	10,900,000	3,600,000
Warrants	33,277,310	33,777,310
diluted	<b>406,122,768</b>	372,853,509
Profit/(loss) per share in pence:		
basic	<b>5.1p</b>	(4.6p)
diluted	<b>3.7p</b>	(4.6p)

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, convertible loan notes and warrants into ordinary shares.

As the result for 2018 was a loss, the options and warrants outstanding would be anti-dilutive. Therefore, the dilutive loss per share is considered as the same as the basic loss per share.

There were no anti-dilutive instruments that were not included in the calculations that would have a material impact on the basic earnings per share.

There are no significant ordinary share issues post the balance sheet date, save for those disclosed in note 26 that would materially affect this calculation.

**10 Intangible assets**

Group	Exploration & evaluation assets	Company & IT software assets	Total	Exploration & evaluation assets	Company & IT software assets	Total
	2019 £000	2019 £000	2019 £000	2018 £000	2018 £000	2018 £000
<b>At cost</b>						
At beginning of the year	24,719	7	24,726	22,402	3	22,405
Additions	10,897	113	11,010	2,351	4	2,355
Disposals	(150)	-	(150)	(34)	-	(34)
At end of the year	35,466	120	35,586	24,719	7	24,726
<b>Impairments and write-downs</b>						
At beginning of the year	(22,367)	(4)	(22,371)	(22,217)	(2)	(22,219)
Amortisation	-	(36)	(36)	-	(2)	(2)
Impairment	-	-	-	(184)	-	(184)
Disposals	-	-	-	34	-	34
At end of the year	(22,367)	(40)	(22,407)	(22,367)	(4)	(22,371)
<b>Net book value</b>						
At 31 December 2019	<b>13,099</b>	<b>80</b>	<b>13,179</b>			
At 1 January 2019	2,352	3	2,355			
At 1 January 2018	185	1	186			

Exploration and evaluation assets at 31 December 2019 comprise the Group's interest in the Harvey and Abbeydale appraisal prospects and the Goddard pre-development prospect.

An impairment charge of £184k was recognised during 2018 reflecting those post 2016 drilling expenses and licence administration costs incurred on the previously impaired Skipper asset, Licence P1609 which was relinquished during 2019.

**11 Property, plant and equipment**

Group	D&P assets Phase 1	D&P assets Phase 2	Pipeline assets	Right of use assets	Company & admin assets	Total	D&P assets Phase 1	D&P assets Phase 2	Pipeline assets	Company & admin assets	Total
	2019	2019	2019	2019	2019	2019	2018	2018	2018	2018	2018
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
<b>At cost</b>											
At beginning of the year	22,444	8,136	10,947	-	74	41,601	11,873	9,443	-	34	21,350
On transition	-	-	-	703	-	703	-	-	-	-	-
Additions	3,521	869	668	351	184	5,593	10,963	(1,287)	10,447	40	20,163
Change in estimate of decommissioning asset (note 17)	-	(1,198)	-	-	-	(1,198)	-	-	-	-	-
Decommissioning asset (note 17)	-	-	10,000	-	-	10,000	-	-	-	-	-
Disposals	(12,118)	(3,745)	(10,353)	-	-	(26,216)	-	-	-	-	-
Reclassified from current assets	-	-	-	-	-	-	-	200	-	-	200
Thames Pipeline decommissioning security	-	-	(250)	-	-	(250)	-	-	500	-	500
Blythe asset acquisition (Note 12)	-	-	-	-	-	-	(392)	-	-	-	(392)
Vulcan Satellites asset acquisition (Note 12)	-	-	-	-	-	-	-	(220)	-	-	(220)
At end of the year	13,847	4,062	11,012	1,054	258	30,233	22,464	8,136	10,947	74	41,601
<b>Accumulated depreciation</b>											
At beginning of the year	-	-	-	-	(33)	(33)	-	-	-	(14)	(14)
DD&A	-	-	-	(145)	(63)	(208)	-	-	-	(19)	(19)
At end of the year	-	-	-	(145)	(96)	(241)	-	-	-	(33)	(33)
<b>Net book value</b>											
At 31 December 2019	13,847	4,062	11,012	909	162	29,992					
At 1 January 2019	22,444	8,136	10,947	-	41	41,568					
At 1 January 2018	11,873	9,443	-	-	20	21,336					

Phase 1 development and production assets received Final Investment Decision in October 2019 and are awaiting approval of the final Field Development Plan from the OGA, expected by 30 April 2020

Phase 2 development and production assets are currently scheduled for Final Investment Decision in Q3 2021.

The £200k paid as decommissioning security guarantees in respect of both the Elland P039 Licence suspended well and the Initial Thames Pipeline Decommissioning Security were classified as fixed assets at 31 December 2018. In 2019, a further £2.0 million was paid upon acquisition as security against the Thames Reception Facility Decommissioning Security.

Following the farm-down to CER, the above amounts were reduced by 50% resulting in £100k held against the Elland P039 licence, £250k against the Thames Pipeline, and £1.0 million against the Thames Reception Facility. At the year end, £1.25 million for the Thames Pipeline and Thames Reception Facility classified as Restricted cash on the balance sheet.

## 12 Restructuring and Farm-out

### Debt Restructuring of Loans and Convertible Loans

At the beginning of the year, the following loans were outstanding.

Loan Facility	Entity	Effective Date	Principal £000	Accumulated interest £000	31 December 2018 £000
£2.75 million facility	IOG North Sea Limited	7 December 2015	2,750	654	3,404
£0.80 million facility	IOG North Sea Limited	11 December 2015	800	192	992
£10.00 million facility	IOG North Sea Limited	5 February 2016	10,000	1,671	11,671
£10.00 million facility	IOG plc	21 February 2018	10,000	672	10,672
£15.00 million facility	IOG plc	13 September 2018	7,150	142	7,292
		Capitalised fees			(4,213)
					29,818

In April 2019 the Group restructured its debt with the Company's main creditor London Oil and Gas Limited ("LOG") with a Debt Repayment and Discharge Agreement ('DRDA') to defer each 2019 maturity by 12 months.

LOG also converted £1.6 million of the outstanding balance of the February 2016 loan in to 20,497,204 ordinary shares.

On 28 October 2019, at the completion of the Farm-out, £17.1 million of cash proceeds were used to repay in full all non-convertible loans and £79,000 of the February 2016 convertible loan, with the balance of the latter loan being converted into 135,464,155 new Ordinary Shares.

The 2018 secured convertible loan which accrued interest at 9% above LIBOR was restructured into a £11.6 million Convertible Loan Note Instrument. This instrument is unsecured, subordinated to other Group debt, accrues no interest, has a maturity date of 23 September 2024 and is convertible at 19p into 60,872,361 Ordinary Shares.

The table below sets out the opening, movement and closing position of the LOG loans in 2019.

Loan Facility	B/fwd Balance	2019 Drawdown	2019 Interest	Cash Settlement	Converted to ordinary shares	Gain on loan modification <sup>3</sup>	Other	Carrying Value at 31 December 2019
	£000	£000	£000	£000	£000	£000	£000	£000
£2.75 million facility	3,404	-	252	(3,656)	-	-	-	-
£0.80 million facility	992	-	82	(1,074)	-	-	-	-
£10.00 million facility	11,671	-	885	(79)	(12,477)	-	-	-
£10.00 million facility	10,672	-	894	-	-	(5,005)	258 <sup>1</sup>	6,819
£15.00 million facility	7,292	3,925	1,113	(12,330)	-	-	-	-
Capitalised Fees	(4,213)	-	-	-	-	-	4,213 <sup>2</sup>	-
	29,818	3,925	3,226	(17,139)	(12,477)	(5,005)	4,471	6,819

1 2019 unwinding discount of the convertible loan

2 Fees expensed to Statement of Comprehensive Income in 2019

3 See note 7

### Share Placing, Open Offer and Subscription

In April 2019, the Group raised gross proceeds of £18.9 million through the issue of ordinary shares at 10 pence. The three components of shares were issued:

	Ordinary Shares	£000
Placement	165,795,050	16,580
Subscription	3,250,000	325
Open Offer	20,141,129	2,014
	189,186,179	18,919

## 12 Restructuring & Farm-out (continued)

### Farm-out and Phase 1 FID

On 28 October 2019 the Company announced that it completed the farm-out of 50 per cent of its SNS Assets (excluding Harvey) to CalEnergy Resources Limited ("CER"). IOG and CER took Phase 1 FID and submitted confirmation of full funding to the OGA in support of the Phase 1 FDP approval.

CER paid the initial cash consideration of £40m to IOG under the terms of the farm-out. CER will also pay for up to £125m of IOG's development costs, usable against 80 per cent of IOG's 50 per cent share of Core Project costs, up to caps of £60m for Phase 1 and £65m for Phase 2. IOG will pay CER a royalty of 20.2 per cent of its net revenues from the Phase 1 fields only (i.e. 10.1 per cent of gross Phase 1 revenues, net of National Transmission System entry charges and applicable marketing fees), up to a cap of £91m over field life.

In addition, IOG will receive an effective royalty interest equating to £0.50/MCF on CER's 50 per cent share of production from certain sections of the Goddard Field after 70 BCF gross has been produced from the field, up to a maximum royalty of £9.75m. With its experienced SNS development team, IOG has retained Operatorship of the Core Project.

CER also had the option to acquire 50 per cent of the Harvey licences within three months of completion of the Harvey appraisal well 48/24b-6. Subsequent to the year end, the Company announced that this option expired on 27 February 2020.

Upon completion of the Farm-out, the company settled three of its outstanding LOG loans including interest with £17.1 million of the £40 million proceeds received.



**13 Investments**

<b>Company</b>	<b>Shares in Group companies</b>	<b>Loans to Group companies</b>	<b>Total</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>
<b>At cost</b>			
At 1 January 2018	17,416	12,280	29,696
Additions	(219)	17,246	17,027
At 31 December 2018	17,197	29,526	46,723
Disposals	(1,711)	(816)	(4,757)
<b>At 31 December 2019</b>	15,486	28,710	41,966
<b>Net book value</b>			
<b>At 31 December 2019<sup>1</sup></b>	15,486	28,710	41,966
At 1 January 2019	17,197	29,526	46,723
At 1 January 2018	17,416	12,280	29,696

<sup>1</sup> There were no impairments in the 2019 period.

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, however they are technically due on demand. These loans are non-interest bearing.

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

<b>Directly held</b>	<b>Country of incorporation</b>	<b>Area of operation</b>	<b>%</b>
IOG Infrastructure Limited	United Kingdom	United Kingdom	100
IOG North Sea Limited	United Kingdom	United Kingdom	100
IOG UK Ltd	United Kingdom	United Kingdom	100
Avalonia Energy Limited (dormant)	United Kingdom	United Kingdom	100
<b>Held by Avalonia Energy Limited</b>			
Avalonia Goddard Limited (dormant)	United Kingdom	United Kingdom	100
Avalonia Abbeydale Limited (dormant)	United Kingdom	United Kingdom	100
Avalonia Energy Appraisal Limited (dormant)	United Kingdom	United Kingdom	100

IOG Infrastructure Limited completed the Thames Pipeline acquisition on 16 April 2018 and became an active subsidiary at that time. All three active subsidiaries are now engaged in the business of oil and gas appraisal, development and/or operations in the UK North Sea.

The four dormant companies were incorporated in 2018 and 2019 and have been made available to support any potential Group restructure following refinancing of the Group.

The financial reporting periods for each subsidiary entity are consistent with the Company and end on 31 December.

**14 Interests in production licences**

At 31 December 2019, all ten Group UK Offshore Production Licences, apart from Harvey and Redwell (100%), were owned 50% by either IOG North Sea Limited or IOG UK Ltd. The Thames Pipeline P370 and Bacton Gas Terminal assets are owned 50% by IOG Infrastructure Limited. The Skipper Licence 100% interest was relinquished 11 February 2019.

**15 Other receivables and prepayments**

	<b>2019</b>	2018
	<b>£000</b>	£000
<b>Group</b>		
VAT recoverable	759	311
Prepayments	257	361
Operator advance accounts	2,579	-
Debtors	1,497	-
	<u>5,092</u>	<u>672</u>
<b>Company</b>		
VAT recoverable	759	311
Prepayments	257	361
Debtors	1,497	-
	<u>2,513</u>	<u>672</u>

The 2019 prepayments relate to rent and general administration. Included in 2019 Prepayments (both Group and Company) were financing costs of £nil (2018: £291k) incurred at 31 December 2019, these were expensed to the Statement of Comprehensive Income during the period.

The debtors balance of £1.4 million represents an amount paid to ABG Sundal Collier Holding ASA to buy back Norwegian bonds that it held. At the year end these bonds had not been transferred in title to the Company and remained as a receivable.

The Company has considered the carrying value of Debtors in the context of IFRS 9 and has assessed the debtors ability to repay the amount due. In assessing the expected credit loss ('ECL') of the receivables, the Company considered future cash flows from the entities and concluded there is no material ECL provision required.

**16 Current liabilities**

	<b>2019</b>	2018
	<b>£000</b>	£000
<b>Group</b>		
Loans	-	6,934
Trade payables	3,856	5,961
Lease liabilities	939	-
Accruals	1,588	3,467
Contingent consideration payable (see Note 17)	848	1,709
	<u>7,231</u>	<u>18,071</u>
<b>Company</b>		
Trade payables	3,856	5,961
Lease liabilities	939	-
Accruals	301	401
Contingent consideration payable (see Note 17)	848	1,709
	<u>5,944</u>	<u>8,071</u>

**17 Non-current liabilities**

	<b>2019</b>	2018
	<b>£000</b>	£000
<b>Group</b>		
Long-term loans	<b>89,243</b>	22,884
Contingent consideration payable	<b>2,267</b>	4,478
Decommissioning provision	<b>7,237</b>	5,640
	<u><b>98,747</b></u>	<u><b>33,002</b></u>
<b>Company</b>		
Long-term loans	<b>89,243</b>	14,054
Contingent consideration payable	<b>644</b>	1,259
	<u><b>89,887</b></u>	<u><b>15,313</b></u>

**Long-term loans:**

Nordic bond issued in September 2019 represents £82.4 million of the long-term loans balance. See note 20 for further details

The amounts drawn on LOG loans at 31 December 2019 were as follows:

<b>Loan Facility</b>	<b>Entity</b>	<b>Effective Date</b>	<b>Maturity Date</b>	<b>Principal</b>	<b>Interest</b>
£11.6 million convertible loan, 5 year facility	I OG plc	28 September 2019	23 September 2024	£11.6 million	Nil

See note 12 for information relating to the outstanding LOG loan.

**17 Non-current liabilities** (continued)

**Contingent consideration payable:**

The Group is required under the terms of the 2016 acquisition of the additional 50% of Blythe and the 2016 acquisition of Vulcan Satellites, to make further amounts payable on both the FDP approval (Vulcans), being a current liability expected by 30 April 2020, and first gas (Blythe and Vulcans) being non-current liabilities, see below.

As disclosed in the 2018 financial statements, these milestone events triggering deferred consideration payments are now considered to be more certain than not and a non-current amount of £2.3 million is recognised. These amounts have been provided for and the payments discounted to the point where the Board expect the milestones to be achieved based on the current development programme. Timings for these non-current payments, pursuant to first gas, have been adjusted during 2019 and are now anticipated to be Q3 2021 for Southwark and Q4 2021 for Blythe.

The movements in the year are as follows:

	<b>2019</b>	2018
	<b>£000</b>	£000
At 1 January	6,187	6,013
Disposal to CER	(3,092)	-
Prospective adjustment for change in payment dates	(493)	(612)
Foreign exchange	30	194
Unwinding of discount	<u>482</u>	<u>592</u>
<b>At 31 December</b>	<b><u>3,114</u></b>	<b><u>6,187</u></b>

Given the timing of the expected payments, the total balance is split between current and non-current as set out below:

	<b>2019</b>	2018
	<b>£000</b>	£000
Current contingent consideration payable (FDP approval)	847	1,709
Non-Current contingent consideration payable (first gas)	<u>2,267</u>	<u>4,478</u>
	<b><u>3,114</u></b>	<b><u>6,187</u></b>

**17 Non-current liabilities** (continued)**Decommissioning provision:**

	<b>2019</b>	2018
	<b>£000</b>	£000
at 1 January	5,640	3,598
Revision in estimates	(1,162)	-
Additions	10,000	2,042
Disposals	(7,239)	-
<b>At 31 December</b>	<b>7,239</b>	<b>5,640</b>

The Group has regulatory and financial obligations in respect of decommissioning a suspended well on the Elland Licence P039 – Gross £2.4 million (2018: £3.6 million), net to the Company £1.2m and decommissioning the Thames Pipeline - £2.0 million (2018: £2.0 million). During the year through the acquisition of the Thames Reception Facility at Bacton the company also took on further decommissioning liabilities totalling £5.0 million.

A full decommissioning estimate for the Elland suspended well remains uncertain until an appropriate drilling programme has been reviewed and considered for the Elland development, which may include the abandonment of that particular well. The timing and thus payment of this decommissioning program remains inherently uncertain, but the company reassessed the costs in 2019 and revised the cost down to £2.4 million (gross) of which it will be liable for 50% share. As per Note 1, the current estimate of £2.4 million is based upon a recent technical valuation and by its nature is subject to market conditions at the time of contracting a rig to carry out the work.

The £1.0 million provision for the Thames Pipeline decommissioning obligation has been calculated on a discounted cash flow basis, whereby the present value of the regulatory marine surveys has been inflated at 2% and then discounted at the risk-free discount rate of 1.8%. It has been estimated that the Thames Pipeline has a useful life over the next 25 years; however, the judgements made on this and other variables, currently provided by the OGA, are inherently uncertain.

The initial £10.0 million provision for the Thames Reception Facility decommissioning obligation has been recognised on the basis of the SPA, then reduced to reflect the Farm-out to CER (£5.0 million net). Resulting in a net £5.0 million liability. An initial payment of £2.0 million was made by the Company as security for the liability on completion of the Thames Reception Facility transaction which was then reduced for CER's 50% share to £1.0 million. The Group is due to pay a further eight quarterly payments of £0.5 million as security six months after the start of gas production. The Group has chosen to recognise the full amount of the liability represented in the SPA as there is no material difference of discounting the payments back to the balance sheet date.

**18 Share capital**

	Number	Share capital £000	Share premium £000	Total £000
<b>Authorised, allotted, issued and fully paid</b>				
At 1 January 2018				
- Ordinary shares of 1p each	120,209,629	1,203	22,337	23,540
Equity issued	6,658,527	66	-	66
At 31 December 2018				
- Ordinary shares of 1p each	126,868,156	1,269	22,337	23,606
Equity issued:				
- April 2019, Ordinary shares of 1p – Placing, Open offer, Subscription and LOG conversion	209,670,834	2,097	17,173	19,270
- October 2019, Ordinary shares of 1p – London Oil & Gas Ltd debt conversion	135,464,155	1,355	9,482	10,837
- October 2019, Ordinary shares of 1p – Edimis Energy Limited settlement <sup>1</sup>	3,147,139	31	431	462
Equity issued <sup>2</sup>	5,022,961	50	-	50
At 31 December 2019				
- Ordinary shares of 1p each	<b>480,173,245</b>	<b>4,802</b>	<b>49,423</b>	<b>54,225</b>

<sup>1</sup> For further details, see related party transactions note 24

<sup>2</sup> During 2019, the Company issued 5,022,961 (2018: 6,658,527) ordinary shares at a subscription price of 1p from the exercise of management and other personnel share options.

**Share options and warrants**

During the current and prior year, the Company granted share options under its share option plans as follows:

	Number	Price	Date of Grant	Expiry
<b>1 January 2018</b>	<b>12,323,666</b>	<b>1p</b>		
Salary/fee sacrifice options	483,166	1p	1 Mar 2018	28 Feb 2023
LTIP options	2,600,000	20p	1 Mar 2018	28 Feb 2028
LTIP options	1,000,000	35p	27 Jul 2018	26 Jul 2028
Salary/fee sacrifice options	534,420	1p	1 Sep 2018	31 Aug 2023
Options exercised	(6,658,527)			
<b>31 December 2018</b>	<b>10,282,725</b>	<b>9.11p</b>		
Salary/fee sacrifice options	628,496	1p	28 Feb 2019	28 Feb 2024
LTIP options	600,000	13.25p	24 May 2019	23 May 2029
LTIP options	1,600,000	12.75p	1 May 2019	30 Apr 2029
CSOP options	5,100,000	12.75p	1 May 2019	30 Apr 2029
Salary/fee sacrifice options	1,223,611	1p	31 Aug 2019	31 Aug 2024
Options exercised	(5,022,961)			
<b>31 December 2019</b>	<b>14,111,871</b>	<b>13.03p</b>		

For details of LTIP and CSOP valuations see Note 4.

**18 Share capital** (continued)

Of the remaining personnel options, 12,323,666, outstanding at 1 January 2018, 6,652,747 were exercised during 2018. Of those personnel options granted during 2018, 5,810 were exercised during 2018. Total personnel options exercised in 2018 is thus 6,658,527.

Of the remaining staff options, 10,282,725, outstanding at 31 December 2018, 4,519,233 were exercised during 2019. Of those staff options granted during 2019, 503,728 were exercised during 2019. Total personnel options exercised in 2019 is thus 5,022,961.

The fair value of these options exercised was transferred from the Share-based Payment Reserve to Accumulated Loss.

All salary/fee sacrifice options outstanding at 31 December 2019 were issued at an exercise price of 1p per share and carry no additional performance conditions. These shares were issued at a volume calculated by taking the amount owing and dividing by the volume weighted average price for the period to which the salary/fee sacrifice pertains.

**CSOP Valuation**

The valuation model for CSOP options is a Black Scholes option pricing model which calculates the fair value of a European style option. The valuation model assumes:-

- Share price of 12.75p
- Exercise price of 12.75
- Option life of 10 years
- The risk-free rate and volatility of the underlying are known and constant (0.74%, 3 year UK government bond at grant date)
- Returns on the underlying option are normally distributed.

**LTIP Valuation**

The LTIP valuation is based on a Log-normal Monte-Carlo stochastic model.

The valuation incorporates a forecast employee turnover to establish the number of options expected to vest, the charge requires recalculation each year to take account of any revised estimates regarding employee turnover and any new grants of share options.

- Efficient markets (i.e., market movements cannot be predicted)
- No commissions
- 10,000 iteration
- The risk-free rate and volatility of the underlying are known and constant (0.62%, 3 year UK government bond at grant date)
- Share price volatility is 84.19%

All LTIP and CSOP options outstanding at 31 December 2019 were issued to option holders with, other than the target price, several performance criteria including the delivery, measurement, control and management of an appropriate HSE statement and policy together with a Group-wide HSE focussed culture.

The remaining average contractual life of the 14,111,871 options outstanding at 31 December 2019 (2018 – 10,282,725) was 7.7 years at that date (2018: 4.9 years) of which 1,062,893 were exercisable at 31 December 2019 (2018: 6,682,725).

The weighted average exercise price of the options remaining was 13.03p at 31 December 2019 (2018 – 9.11p).

A further 403,104 options are due to be issued in 2020 relating to 2019 salary/fee sacrifice; however, these have not been issued as at the date of this report.

The Company calculates the value of personnel salary/fee sacrificed share-based compensation as the actual value of the sacrificed amount. This is deemed to be the fair value of such awards. The fair value of sacrificed salary/fee share options granted in 2019 is calculated as £299k (2018: £236k) and this has been charged to the Statement of Comprehensive Income. The exercise price of such awards was determined as 1p (2018: 1p).

The Company calculates the fair value of LTIP share-based compensation using a Black-Scholes options pricing model. The fair value of LTIP options granted in 2019 is calculated as £750k (2018: £633k), of which £166k (2018: £141k) has been charged to the Statement of Comprehensive Income, being the amortised amount over the vesting period attributable to the current year. The exercise price of these options has been determined as 20p for those issued on 1 March 2018 and 35p for those issued on 27 July 2018. On 1 May 2019 the Company announced that it had cancelled the future awards under the 2018 LTIP options scheme.

## 18 Share capital (continued)

Further details for directors are provided in Note 4.

The Company did not grant any warrants in the current year. Warrants for 500,000 lapsed during the year and are shown as follows:

	Number	Price	Date of Grant	Expiry
<b>1 January 2018</b>	<b>13,777,310</b>	<b>9.64p</b>		
London Oil & Gas Ltd	20,000,000	32.18p	13 Sep 2018	12 Sep 2023
<b>31 December 2018</b>	<b>33,777,310</b>	<b>22.98p</b>		
Lapsed warrant	(500,000)	8p	29 Mar 2016	31 Mar 2019
<b>31 December 2019</b>	<b>33,277,310</b>	<b>23.21p</b>		

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 20,000,000 warrants granted to London Oil & Gas Limited on 13 September 2018 was calculated as £4.2 million, all of which was recognised as an issue cost of the £15 million LOG loan facility, held at amortised cost using the effective interest method. The exercise price of these warrants was determined as 32.18p.

The following assumptions were applied in the LOG warrant award calculation:

Risk free interest rate	1.50%
Dividend yield	nil
Weighted average life expectancy	4 years
Volatility factor	96.45%

A volatility of 96.45% has been applied based upon the Company's share price over the period from the Company's listing on AIM on 30 September 2013 until 13 September 2018.

During the year 500,000 warrants granted to a services contractor, lapsed.

The remaining average contractual life of the 33,277,310 warrants outstanding at 31 December 2019 (2018 – 33,777,310) was 2.23 years at that date (2018 – 3.18 years). All such warrants were exercisable at 31 December 2019.

The weighted average exercise price of the warrants remaining was 23.21p at 31 December 2019 (2018 – 22.98p). No further warrants have been issued or exercised as at 25 March 2020.



**19 Restricted cash, Cash and cash equivalents**

<b>Group</b>	<b>2019 £000</b>	<b>2018 £000</b>
Restricted cash	<b>82,066</b>	-
Cash at bank	<b>16,197</b>	702
<b>Company</b>		
Restricted cash	<b>80,816</b>	-
Cash at bank	<b>16,197</b>	702

Restricted cash at 31 December 2019 includes £82.0 million (2018: £nil) of restricted deposits in Euro escrow and Debt Service Reserve Accounts following the Norwegian Bond issue and a £1.3 million deposit secured against decommissioning provisions of its infrastructure assets. Of the total restricted cash balances for £32.8 million for the Group and £31.6 million for the Company is available within 1 year.

Cash and cash equivalents comprise cash in hand, deposits and other short-term money market deposit accounts that are readily convertible into known amounts of cash. The fair value of cash and cash equivalents is £16.2 million (2018: £0.7 million).

**20 Bonds payable**

On 20 September 2019, the Company issued an up to €130 million Norwegian Bond on the Oslo Børs, of which €100 million was drawn down to fund the Phase 1 development program.

	<b>2019 £000</b>	<b>2018 £000</b>
Balance at the beginning of the year	-	-
Bonds Issued (€100m)	90,439	-
Transaction fees	(2,793)	-
Interest charged	2,545	-
Interest Paid	(2,545)	-
Currency revaluation	(5,223)	-
	<b>82,423</b>	-

The secured callable bonds were issued on 20 September 2019 by IOG plc at an issue price of par. The bonds have a term of five years and will be repaid in full at maturity. The bonds carry a coupon of 9.5% plus 3 month EURIBOR with a EURIBOR floor of 0% and were issued at par.

The Bond is callable 3 years after issuance with an initial call premium of 50% of the coupon (i.e. repayable at a cost of €104.75 million if 3m EURIBOR is at zero or lower), declining by 10% every six months thereafter.

**21 Leases**

***Lease liabilities***

	<b>2019</b>
	<b>£000</b>
At 1 January	1,054
Interest expenses	121
Lease payments	<u>(236)</u>
<b>At 31 December</b>	<b><u>939</u></b>

<b><i>Lease payments</i></b>	<b>Group</b>		<b>Company</b>	
	<b>2019</b>	2018	<b>2019</b>	2018
	<b>£000</b>	£000	<b>£000</b>	£000
Within one year	<b>346</b>	-	<b>346</b>	-
In the second to fifth year inclusive	<b>552</b>	-	<b>552</b>	-
Greater than five years	<b>667</b>	-	<b>667</b>	-

Finance leases payments represent the Group and Company's share of office lease rental payments at 10 Arthur Street, London and Endeavour House, 189 Shaftesbury Avenue, London, together with the Crown Estate lease for the rights for the Thames Pipeline to cross the foreshore at Bacton.

## 22 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
- Restricted cash
- Loans
- Other receivables
- Trade and other payables
- Convertible loan notes
- Bonds

**22 Financial instruments (continued)****Liquidity risk**

The Group 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 to eighteen months for personnel costs, overheads, working capital and as commitments dictate for capital spend.

Rolling cash forecasts, which are essentially the current budgeting and reforecasting process, identifying the liquidity requirements of the Group and Company, are produced frequently. These are reviewed and approved regularly by management and the Board to ensure that sufficient financial resources are made available. The Group's oil and gas exploration and development activities are currently funded through the Company with existing cash balances, Bond proceeds in escrow and joint venture partner carry receipts from CER.

	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
<b>2019 Group</b>					
<b>Current financial liabilities</b>					
Trade and other payables	3,856	-	-	3,856	3,856
Obligations under finance leases	939	-	-	939	939
Deferred consideration	848	-	-	848	848
Accruals	1,588	-	-	1,588	1,588
Loans	-	-	-	-	-
<b>Non-current financial liabilities</b>					
Deferred Consideration	-	-	2,267	2,267	2,267
Loans	-	-	11,566	11,566	11,566
Bonds	4,108	4,108	113,179	121,395	121,395
	<u>11,339</u>	<u>4,108</u>	<u>127,012</u>	<u>142,549</u>	<u>142,549</u>
<b>2018 Group</b>					
<b>Current financial assets</b>					
Cash and cash equivalents	702	-	-	702	702
	<u>702</u>	<u>-</u>	<u>-</u>	<u>702</u>	<u>702</u>
<b>Current financial liabilities</b>					
Trade and other payables	6,017	-	-	6,017	5,961
Deferred consideration	1,750	-	-	1,750	1,709
Accruals	3,467	-	-	3,467	3,467
Loans	3,138	4,213	-	7,351	6,934
<b>Non-current financial liabilities</b>					
Deferred Consideration	-	-	5,426	5,426	4,478
Loans	-	-	34,118	34,118	22,884
Decommissioning Provisions	-	-	6,291	6,291	4,331
	<u>14,372</u>	<u>4,213</u>	<u>45,835</u>	<u>64,420</u>	<u>49,764</u>

**22 Financial instruments (continued)**

	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
<b>2019 Company</b>					
<b>Current financial liabilities</b>					
Trade and other payables	3,856	-	-	3,856	3,856
Deferred Consideration	848	-	-	848	848
Accruals	1,240	-	-	1,240	1,240
<b>Non-current financial liabilities</b>					
Deferred Consideration	-	-	644	644	644
Loans	-	-	11,566	11,566	11,566
Bonds	4,108	4,108	113,179	121,395	121,395
	<u>10,052</u>	<u>4,108</u>	<u>125,389</u>	<u>139,549</u>	<u>139,549</u>
<b>2018 Company</b>					
<b>Current financial assets</b>					
Cash and cash equivalents	702	-	-	702	702
Loans to Group companies	-	-	29,526	29,526	29,526
	<u>702</u>	<u>-</u>	<u>29,526</u>	<u>30,228</u>	<u>30,228</u>
<b>Current financial liabilities</b>					
Trade and other payables	6,017	-	-	6,017	5,961
Deferred Consideration	1,750	-	-	1,750	1,709
Accruals	402	-	-	402	402
<b>Non-current financial liabilities</b>					
Deferred Consideration	-	-	1,500	1,500	1,259
Loans	-	-	23,543	23,543	14,054
	<u>8,169</u>	<u>-</u>	<u>25,043</u>	<u>33,212</u>	<u>23,385</u>

**22 Financial instruments** (continued)**Credit risk**

Credit risk arises principally from the Group's and Company's other receivables, restricted cash, cash and cash equivalents, and loans to subsidiaries (Company). It is the risk that the counterparty fails to discharge its obligation in respect of the instrument. 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. Funds are currently placed with the National Westminster Bank plc and DNB Bank ASA for the EUR Escrow and DSRA funds. Under IFRS 9 there is no material impact for both the Group and Company when assessing expected credit losses of its receivables.

The Group made investments and advances into subsidiary undertakings during the year and these mostly relate to the funding of the SNS Hub Development Projects, and the Company expects to recover these loans when these Projects start to generate positive cash flows. Loans to subsidiary undertakings are recognised at amortised cost in accordance with IFRS 9. The loans have no maturity date and are not repayable until the respective subsidiary entity has sufficient cash to repay the loan. The Board has accordingly assessed the expected repayment dates based on the strategic forecasts approved by the Board.

As at the Balance Sheet date, the Group and Company had £1.5 million external receivables (2018: £nil).

IFRS 9 introduced a new impairment model that requires the recognition of ECLs on financial assets at amortised cost. The ECL computation considers forward looking information to recognise impairment allowances earlier. Intercompany exposures, where appropriate, are also in scope under IFRS 9. The Company assesses the loans made to subsidiary undertakings on the basis of the relevant subsidiaries' long-term strategic forecasts and alongside the Board's commercial rationale for providing the specific loan. The loans are not repayable on demand and are expected to be repaid once the underlying assets progress into the production phase when cash inflows are generated. Based on the methodology set out by the standard, the Board has for each intercompany loan, assessed the probability of the default, the loss given default and the expected exposure to compute the ECLs. The Board has incorporated relevant medium and long-term macroeconomic forecasts in their assessment which is included as a principle consideration in the entity's strategic forecasts. Such factors include oil price sensitivities, funding requirements, reserve and resource estimates. The Board has concluded that any ECLs to be recognised are not material to these financial statements and that there has been no significant increase in credit risk that would warrant the recognition of a material provision. Accordingly, the Company has not recognised any expected credit loss for the balances owed by subsidiary undertakings recognised on the Balance Sheet at amortised cost. The Group and Company do not hold any collateral as security for any external financial instruments, or otherwise.

The maximum exposure to credit risk is the same as the carrying value of these items in the financial statements as shown below.

	<b>Group</b>		<b>Company</b>	
	<b>2019 £000</b>	2018 £000	<b>2019 £000</b>	2018 £000
Other receivables	<b>1,497</b>	-	<b>1,497</b>	-
Loans to subsidiaries	-	-	<b>28,710</b>	29,526
Restricted cash	<b>82,066</b>	-	<b>80,816</b>	-
Cash and cash equivalents	<b>16,197</b>	702	<b>16,197</b>	702

## 22 Financial instruments (continued)

### Cash flow interest rate risk

Save for restricted EUR denominated cash held in escrow and DSRA accounts which attract a nominal negative cost to hold, cash is essentially non-interest bearing. Loans and trade creditors are subject only to fixed interest rates; accordingly, commercial interest rates would have no significant impact upon the Group's and Company's result for the year ended 31 December 2019 (nor 31 December 2018).

In relation to the EUR denominated cash held in escrow, which currently attracts a nominal negative cost to hold, a 10% fluctuation in the cost to hold rate (currently 0.612%) would increase/reduce the charge by £52k per annum.

### Foreign exchange risk

At 31 December 2019, 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.

The Company holds significant balances (€95.0 million) in EUR from proceeds of the Bond issue, held in escrow. The remaining balances are held in GBP £16.2 million. 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 EUR would give rise to a £6.0 million gain or £7.4 million loss in the Group and 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 and EUR for the Bond deposits. 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 appraisal 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 12 and 18. The Group raised an additional £18.9 million of equity by way of a placement, open offer and subscription in 2019

### Borrowing facilities

The Group had £85.0 million of borrowings outstanding at 31 December 2019 (2018 - £34.0 million).

### Hedges

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

### 23 Financial commitments and contingent liabilities

The Group has contracted capital expenditure in the current period as part of the phase 1 development work program for the licences in which it participates:

	<b>2019</b> <b>£000</b>	2018 £000
Authorised but not contracted	<b>30,066</b>	-
Contracted	<b>1,250</b>	1,287
	<b>31,316</b>	1,287

All 2019 contracted amounts relate to contracted UKCS Licence Fee and associated OGA Levy payments (estimate) together with contracted service awards to suppliers procured for the development of the Group's phase 1 project assets (Blythe, Southwark, Elgood, Thames Reception Facility and Thames Pipeline).

#### Thames Pipeline:

Security in the sum of £0.5 million, the Initial Thames Decommissioning Pipeline Security Amount, was provided on completion of the Thames Pipeline SPA in April 2018. In October 2019, following the completion of the farm-out to CalEnergy Resources Limited, this amount was reduced to £0.25 million.

Further security in the sum of £1.25 million, the Thames Decommissioning Pipeline Security Amount, is to be provided on the earlier of:

- one month after the variation issued by the OGA to the Pipeline Works Authorisation to allow for the tie-in of one or more of the Group's fields; or
- at the date of sale or alternative use of the Thames Pipeline

#### Thames Reception Facility ("TRF"):

Security in the sum of £2.0 million, the Initial Thames Reception Facility Decommissioning Security Amount, was provided on completion of the TRF SPA in October 2019. Following the completion of the farm-out to CalEnergy Resources Limited, this amount was reduced to £1.0 million.

Further security in the sum of £4.0 million, the TRF Decommissioning Security Amount, is to be provided 2.5 years following the announcement of 'first gas'. This additional amount is payable in 8 quarterly instalments of £0.5 million with the first instalment payable 6 months after the declaration of 'first gas'.

#### Cross-Guarantees:

The Company acts as guarantor to its subsidiary IOG North Sea Limited and its facilities with LOG. These cross guarantees are considered insurance contracts in accordance with IFRS4.



## 24 Related party transactions

Details of directors' and key management personnel remuneration are provided in Note 4.

Andrew Hockey, CEO, acquired 710,729 ordinary shares of 1p each in the capital of the Company and is the current holder of these shares at 31 December 2019. Andrew is also the current holder of 3,467,740 share options at 31 December 2019 and is also entitled to 62,460 share options through salary sacrifice at 31 December 2019, which at the date of this report have not yet been granted.

Rupert Newall, CFO, and persons closely associated, acquired 3,667,050 ordinary shares of 1p each in the capital of the Company and are the current holders of these shares at 31 December 2019. Of those shares acquired, 3,147,139 were issued to Edimis Energy Limited, a company which Rupert is a Director, in lieu of payment for fees for advisory services to the Company. Rupert is also the current holder of 1,440,966 share options at 31 December 2019 and is also entitled to 56,214 share options through salary sacrifice at 31 December 2019, which at the date of this report have not yet been granted.

During 2019, Mark Hughes, COO, acquired a further 415,770 ordinary shares of 1p each in the capital of the Company and is the current holder of 597,770 shares at 31 December 2019. Mark is also the current holder of 2,183,063 share options at 31 December 2019 and is also entitled to 42,473 share options through salary sacrifice at 31 December 2019, which at the date of this report have not yet been granted.

Fiona MacAulay, Chair, acquired 200,000 ordinary shares of 1p each in the capital of the Company and is the current holder of these shares at 31 December 2019. Fiona is also the current holder of 1,000,000 share options at 31 December 2019.

Esa Ikaheimonen, Non-Executive Director, acquired 500,000 ordinary shares of 1p each in the capital of the Company and is the current holder of these shares at 31 December 2019. Esa is also the current holder of 736,606 share options at 31 December 2019 and is also entitled to 97,050 share options through salary sacrifice at 31 December 2019, which at the date of this report have not yet been granted.

Neil Hawkings, Non-Executive Director, is the current holder of 628,055 share options at 31 December 2019. Neil is also entitled to 9,994 share options through salary sacrifice at 31 December 2019, which at the date of this report have not yet been granted.

Details of loans and interest charged by LOG are detailed in Notes 12 and 17. The relevant loans outstanding at the end of the year related to the Company.

**25 Notes supporting statements of cash flows** (continued)

**Details of significant non-cash transactions**

	<b>2019</b> <b>£000</b>	2018 £000
Equity consideration for settlement of liabilities	<b>624</b>	-

**Group – Loans and borrowings**

	Current loans and borrowings £000	Non-current loans and borrowings £000	Total loans and borrowings £000
<b>At 1 January 2018</b>	-	<b>12,394</b>	<b>12,394</b>
Drawdowns (Repayments)	-	18,787	<b>18,787</b>
Debt converted into current liability	6,934	(6,934)	-
Issue of warrants and finance fees	-	(4,225)	<b>(4,225)</b>
Amortisation of finance fees	-	617	<b>617</b>
Interest accruing in period	-	2,245	<b>2,245</b>
<b>At 31 December 2018</b>	<b>6,934</b>	<b>22,884</b>	<b>29,818</b>

Of the interest accruing in the period, £22k was capitalised to D&P assets, leaving £1.1 million expensed to the Statement of Comprehensive Income (Note 5).

**25 Notes supporting statements of cash flows (continued)****Group – Loans and borrowings**

	Current loans and borrowings £000	Non-current loans and borrowings £000	<b>Total loans and borrowings £000</b>
<b>At 1 January 2019</b>	<b>6,934</b>	<b>22,884</b>	<b>29,818</b>
Drawdowns (Repayments)	-	3,925	<b>3,925</b>
Lease liability on transition	1,054	-	<b>1,054</b>
Amortisation of finance fees	-	4,213	<b>4,213</b>
Interest accruing in period	528	2,698	<b>3,226</b>
Debt converted into ordinary shares	(3,644)	(8,833)	<b>(12,477)</b>
Repayments	(4,054)	(13,321)	<b>(17,375)</b>
Gain on modification of convertible loan	-	(5,005)	<b>(5,005)</b>
Unwinding of discount	121	259	<b>380</b>
<b>At 31 December 2019</b>	<b>939</b>	<b>6,820</b>	<b>7,759</b>

**Company – Loans and borrowings**

	Current loans and borrowings £000	Non-current loans and borrowings £000	Total loans and borrowings £000
<b>At 1 January 2018</b>	-	-	-
Drawdowns (Repayments)	-	17,150	17,150
Issue of warrants and finance fees	-	(4,224)	(4,224)
Amortisation of finance fees	-	314	314
Interest accruing in period	-	814	814
<b>At 31 December 2018</b>	-	<b>14,054</b>	<b>14,054</b>
Drawdowns (Repayments)	-	3,925	3,925
Lease liability on transition	1,054	-	1,054
Amortisation of finance fees	-	3,910	3,910
Gain on modification of convertible loan	-	(5,005)	(5,005)
Unwinding of discount	121	259	380
Repayments	(236)	(12,330)	(12,566)
Interest accruing in period	-	2,007	2,007
<b>At 31 December 2019</b>	<b>939</b>	<b>6,820</b>	<b>7,759</b>

**26 Subsequent events**

The key events after 31 December 2019 are as follows:

Since January 2020 the Company has awarded 9,278,019 ordinary shares at 1p to Executive Directors and staff under its Company Share Ownership Plan.

On 14 February 2020 the Company, following a move to its new offices at Endeavour House, 189 Shaftesbury Lane, London, sublet both floors of its 10 Arthur Street, London, lease.

On 28 February 2020 the Company announced confirmation that the option held by its Core Project partner, CalEnergy Resources Limited ("CER"), to acquire 50 per cent of the Harvey and Redwell licences has now expired. However, discussions remain ongoing as to potential CER participation in these licences.

On 6 March 2020, the Company drew down €11.7 million from the escrow funds account after completing the first milestone event of the terms of the bond.

**GLOSSARY of KEY 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 + Probable Reserves;
“3P”	the sum of Proved Reserves + Probable plus Possible Reserves;
“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 “Bcfe” or “Bscf”	billion (10 <sup>9</sup> ) 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;
“BEIS”	Department of Business, Energy & Industrial Strategy of the UK Government
“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 area 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 blocks 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;
“Brexit”	the UK’s exit from the European Union, which has taken place on 31 January 2020;
“carbon footprint”	amount of carbon dioxide (CO <sub>2</sub> ) emissions associated with all the activities of a person or other entity (e.g., building, corporation, country, etc.). It includes direct emissions, as well as emissions required to produce goods and services consumed;
“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;
“Covid-19”	coronavirus disease 2019, is an infectious disease caused by severe acute respiratory syndrome coronavirus 2 (SARS-CoV-2), the disease has spread globally, causing the 2019-20 global coronavirus pandemic;
“development carry”	involves the farmer-in agreeing to bear some or all of the development costs relating to the farmer out’s retained interest in a development project;
“discovery”	an exploration well which has encountered hydrocarbons for the first time in a structure;
“farm-out”	to assign an interest in a licence to another party;
“FEED studies”	Front End Engineering Design studies
“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;

**GLOSSARY of KEY TERMS (CONT'D)**

“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 <sup>2</sup> ” 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;
“Mcf/d” or “mcf/d”	thousand cubic feet per day;
“MMbbl” or “MMBbls”	millions (10 <sup>6</sup> ) of barrels of oil;
“MMBO”	million (10 <sup>6</sup> ) barrels of oil;
“MMBOE”	million (10 <sup>6</sup> ) barrels of oil equivalent;
“MMcf”	million (10 <sup>6</sup> ) cubic feet;
“MMcf/d”	million (10 <sup>6</sup> ) cubic feet per day;
“MMscf”	million (10 <sup>6</sup> ) standard cubic feet;
“MMscf/d”	million (10 <sup>6</sup> ) standard cubic feet per day;
“NUI”	Normally Unmanned Installation;
“OGA”	UK Oil and Gas Authority
“oil”	mixture of liquid hydrocarbons of different molecular weights;
“oil equivalent”	international standard for comparing the thermal energy of different fuels;
“operator” or “operatorship”	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;
“Oslo Børs”	Oslo Stock Exchange
“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 + 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 area subdivision of the UKCS of 1 degree of longitude by 1 degree of latitude - typically around 6,600km <sup>2</sup> . On the UKCS each quadrant is further subdivided into 30 blocks;
"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;
"scf"	standard cubic feet;
"seismic survey"	a method by which an image of the earth's subsurface is created through the generation of shockwaves and analysis of their reflection from rock strata. Such surveys can be done in two or three-dimensional form;
"UKCS"	United Kingdom Continental Shelf.

## INFORMATION AND ADVISERS

### Country of incorporation of parent company

England and Wales

### Legal form

Public limited company with share capital

### Directors

Fiona MacAulay  
Andrew Hockey  
Rupert Newall  
Mark Hughes  
Esa Ikaheimonen  
Neil Hawkings

### General Counsel and Company Secretary

Robin Storey

### Registered office

60 Gracechurch Street  
London  
EC3V 0HR

### Company registered number

07434350

### Auditors

BDO LLP  
55 Baker Street,  
London W1U 7EU

### Legal advisers

Fieldfisher LLP  
Riverbank House  
2 Swan Lane  
London EC4R 3TT