Independent Oil and Gas plc

Report and Audited Financial Statements

Year Ended

31 December 2018

Company Number 07434350

ANNUAL REPORT & ACCOUNTS 2018

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I am pleased to be able to report progress on all fronts in 2018 for Independent Oil and Gas plc (the 'Company') and the Group ('IOG') across our UK Southern North Sea ('SNS') portfolio. We continue to move toward our goal of bringing indigenous UK gas into the import-dependent UK market safely and at a low unit cost to generate material cash flows for the Group and attractive returns for our shareholders.

During the year we have successfully added to our portfolio at low cost through successful awards made in the UK 30th Offshore Licensing Round. On 23 May 2018 IOG was offered three new licences containing the Goddard discovery, the south eastern Harvey structure and the Abbeydale discovery. Our core gas portfolio now comprises 302 BCF of Proven and Probable ('2P') Reserves at the Blythe Hub (67 BCF)[1] and the Vulcan Satellites Hub (235 BCF)[1], 108 BCF of Contingent 2C resources at Goddard with incremental upside of an additional 73BCF of Best Estimate Prospective Resources at Goddard and a further 129 BCF Gross Best Estimate Prospective Resources at Harvey, our exciting appraisal opportunity. The combined development of core and incremental upside is very valuable, targeting total daily production of approximately 230mmcfd and an NPV10 of £688million as at year end 2018.

Throughout the year our development team has progressed the necessary engineering studies and benchmarked our capital and operating costs versus the market, such that we have been able to quantify the cost base associated with developing our portfolio and then to submit a revised Field Development Plan ('FDP') to the Oil and Gas Authority ('OGA') in October 2018. This Field Development Plan envisages a phased approach to our core portfolio. Phase 1 comprises the Blythe Hub (the Blythe and Elgood Fields) and the Southwark Field from the Vulcan Satellites Hub. The Nailsworth and Elland fields from the Vulcan Satellites form part of Phase 2 of the development. We plan to develop Phase 1 via two simple unmanned wellhead platforms at Blythe and Southwark and a subsea tieback at Elgood, with up to five long reach wells to be drilled. Initial analysis of the Goddard discovery acquired in the 30th UKCS Licensing Round indicates that the 108 BCF of 2C Contingent Resources recognised within it may be included in the Core Project development. Final Investment Decision ('FID') is planned within 1H 2019 and First Gas is targeted for the start of 2021, from the Southwark field. In early 2018 an offshore survey campaign acquired all necessary environmental and survey data for platform locations and connecting pipelines for Phase 1 and 2 core developments, excluding Goddard, and external survey data for the Thames Pipeline. A second campaign in November 2018 acquired the necessary geotechnical data for the Phase 1 development and for the Harvey appraisal well. At Harvey, PSDM reprocessing of 3D seismic data in the first half of 2018 and subsequent remapping in 3Q 2018 improved our understanding of the incremental upside and we are seeking to appraise this structure at the earliest opportunity having committed to the OGA to drill a well by the end of 2019. In the Harvey appraisal success case we would seek to incorporate this asset into Phase 1 of the core development. On 11th February 2019 the Company allowed the Skipper Licence to expire in order to focus our portfolio fully in the UK Southern North Sea Gas Basin.

The key to unlocking the value of our gas assets is the recommissioned Thames Pipeline ('PL370'). This 24" gas line was decommissioned in 2015 and bringing it back into operation will provide us with a low-cost export route via which we can bring our gas to market at Bacton Terminal on the North Norfolk coast. In April 2018, we completed a Sales and Purchase Agreement ('SPA') with PL370 owners Perenco UK Limited, Tullow Oil SK Limited and Centrica to purchase the 90 km offshore line for a nominal sum and we have worked closely with the OGA, the Department of Business, Energy & Industrial Strategy ('BEIS') and the Health & Safety Executive ('HSE') to become pipeline owner and operator. As part of our offshore surveys campaign, the exterior of PL370 was surveyed and an extensive pigging programme was executed to demonstrate its internal integrity in the first half of 2018. In view of equipment failure on the intelligent pig run in May, a further crawler pig run was executed in September, demonstrating the viability of the shoreward end of the line. A 150 bar 24 hour hydrotest in September demonstrated the capability of the line to accommodate up to 550 mmcfd, providing us with ample capacity for our own portfolio, for any add-on opportunities we deliver and for third-party business we may attract. Progress on the assessment and refurbishment of the Bacton facilities, where the Thames Pipeline comes ashore, will commence in 1H 2020.

In support of our subsurface and engineering efforts the Company has been busy engaging with the supply chain who we hope will be highly engaged partners in developing our gas hubs. To date, Letters of Intent have been signed with Maersk (development drilling), Halliburton (well services), Offshore Design Engineering ('ODE') (duty holder, operations and maintenance contractor), Heerema Fabrication Group ('Heerema' - offshore platform fabrication) and Allseas (subsea and pipeline fabrication and installation contractors).

We are also pleased that in December 2018 the OGA granted an extension of the Blythe licence for a further year and confirmed the waiver of the drill or drop commitment at Elgood allowing the Licence to pass into its second term. We look forward to working ever closer with the OGA as we seek to bring our SNS gas assets into production.

[1] Management Adjustment Estimates based on ERC Equipoise CPR, October 2017

Successful development execution will require firm funding to be in place at FID and the Company has been hard at work to deliver this. Operational progress in 2018 was due in large part to the funding provided to us in the form of a £10 million convertible loan in February 2016 by our largest stakeholder, London Oil and Gas Ltd. ('LOG') at a conversion price of 8p/share, in February 2018 a second convertible loan of £10 million at a conversion price of 19p/share, and in September 2018 a third non-convertible loan of £15 million backed by 20 million warrants at a strike price of 32.16p was agreed. In November 2018 the decision was taken not to attempt development funding through the equity capital markets and a Norwegian bond owing to volatile market conditions. At time of writing the company is pursuing multiple funding strands including a well progressed farm-out process, or funding via the capital markets and has announced a £16.6 million Placing, £0.325 million Subscription and an approximate £2 million intended Open Offer (together 'Fundraising') on 1 April 2019 to secure FID and ensure sufficient funds are available for the drilling of the Harvey well at the earliest opportunity. The Company notes that at time of writing LOG has been placed into administration as has London Capital and Finance ('LCAF'), from whom LOG secured loan finance to provide IOG's funding above. The Company has engaged with LOG and LCAF administrators who have agreed to restructure the LOG loans as part of the Fundraising and have stated publicly that they will support IOG and the LOG/LCAF administration process will have no impact on the Company's business. The Fundraising is subject to shareholder approval. The Company's independently assessed 2P reserves of 303 BCF, equivalent to 54 MMBOE, along with 108BCF of 2C Contingent Resources at Goddard and 202 BCF of Prospective Resources at Harvey and Goddard provides a solid footing to secure an optimal development funding package for the portfolio during 2019.

For tangible progress to be made toward development, the Company obviously needs a high-quality team of individuals and this year we have increased our capability at all levels of the organisation. In February, Andrew Hay left the Board and we wish him well. Also, in February, Mark Routh, CEO and Interim Chairman became Non-Executive Chairman of the Board. I succeeded Mark as Chief Executive Officer having previously been Deputy CEO. In April, Mark Hughes joined the Board as Chief Operating Officer bringing valuable Southern North Sea development experience with him. In July, we welcomed Fiona MacAulay to the Board of Directors as Senior Independent Non-Executive Director. In parallel with strengthening the Board, the Executive Management Team was strengthened by the addition of Rupert Newall as Head of Corporate Finance in November 2018. At year end, Mark Routh stepped down from the Board and Fiona MacAulay took over as Non-Executive Chair. I would like to thank Mark personally for his wisdom and competence and wish him well for the future. Esa Ikaheimonen was appointed Non-Executive Director and Chair of the Audit Committee on 14 March 2019.

In conclusion, I am pleased to report that the Company continues to move toward cash flow generation from our core SNS gas portfolio and toward unlocking valuable incremental upside at our Harvey appraisal opportunity with genuine intent and focus.

I thank all shareholders for their support throughout the year and look forward to further progress in 2019.

Andrew Hockey
Chief Executive Officer
4 April 2019

Highlights of 2018

Operations

- Completion of the transformational acquisition of 100% operated ownership of the Thames Pipeline ('PL370') and the demonstration of its viability to provide a stable export route for the Company's 100% owned gas assets straight to the UK market and National Transport System ('NTS').
    - Offshore site and route survey along PL370, all proposed platform locations and intra-field connecting pipelines completed in May 2018;
    - Completion of the Intelligent Pigging Programme ('IPP') confirmed excellent condition of the PL370 infrastructure; and
    - Completion of tethered pig inspection together with 150-bar pressure hydrotest confirms PL370 economic life good for the next two decades and condition 'as new' confirmed by analysis undertaken by Oilfield Testing Services.
- Significant operational progress towards delivering IOG's SNS gas hub strategy.
    - Environmental Impact Assessment ('EIA') submitted for the Blythe Hub in January 2018 and the Vulcan Satellites Hub in April 2018;
    - Platform fabrication Front End Engineering and Design ('FEED') undertaken by the Heerema Fabrication Group; and
    - FEED completed by Wood for the Subsea, Umbilicals, Risers and Flowlines ('SURF') scope of work on the Phase 1 development
- Strengthened portfolio around PL370 with the award of 100% ownership of three new licence areas, during the UKCS 30th Licensing Round - Goddard, Harvey SE and Abbeydale. Goddard adds 108 BCF of independently assessed 2C Contingent Resources of gas and 73 BCF Best Case Prospective Gas Resources at Goddard.
- 3D seismic reprocessing over the Harvey structure completed and re-interpreted leading to revised management estimate of Best-Case Prospective Resources of 129 BCF.
    - Harvey appraisal well planned to spud in 2019, with the potential to significantly increase the Company's resource base.

Board and Management

- Refreshed Board and management team to drive future growth.
    - Andrew Hockey succeeds Mark Routh as Chief Executive Officer and Mark Routh appointed Non-Executive Chairman;
    - Mark Hughes appointed as Chief Operating Officer;
    - Fiona MacAulay appointed as independent Non-Executive Director ('NED') succeeding Andrew Hay who stepped down as independent NED in February 2018;
    - Rupert Newall appointed as Head of Corporate Finance; and
    - At 31 December 2018, Fiona MacAulay succeeded Mark Routh as Non-Executive Chair.

Highlights of 2018 (continued)

Financial

- Additional £10 million convertible loan facility signed with London Oil & Gas Limited ('LOG') on 21 February 2018, with a further £15 million loan (not convertible) secured from LOG on 13 September 2018. As at 31 December 2018, £7.85 million remains undrawn on the £15 million facility. A further £3.925 million was drawn in January 2019 and £3.925 million outstanding remains.
- Cash balance at period end of £0.70 million.
- Post tax loss for the year was £5.64 million.
- Continue to progress funding process for Final Investment Decision ('FID') on Phase 1 of the core development, including debt and equity discussions as well as an announced farm-out process to bring in an industrial partner.
- FID targeted for 1H 2019, with first gas targeted at the start of Q1 2021.

Post Year End Developments

- Fiona MacAulay was appointed Non-Executive Chair effective 1 January 2019.
- Robin Storey was appointed General Counsel and Company Secretary on 9 January 2019.
- Esa Ikaheimonen was appointed Non-Executive Director and Chair of the Audit Committee on 14 March 2019.
- On 4 January 2019, it was announced that the Financial Conduct Authority ('FCA') was investigating the affairs of LCAF. LCAF was subsequently put into administration during February 2019. Furthermore, LOG entered administration on 19 March 2019. In conclusion, it was envisaged the Company would not be adversely affected by the administration of LOG and that the Company would continue to trade normally.
- The Company announced on the 25 February 2019 that it had initiated a focused farm-out process with a carefully selected shortlist of motivated and well-funded potential farm-in partners.
- The Company announced on 5 March 2019 that it had received and promptly rejected an unsolicited pre-conditional proposal from RockRose Energy plc ('RockRose') in respect of a possible cash offer for the entire issued share capital of the Company at a price of 20 pence per Company share. Subsequently on 25 March 2019, the Company announced that RockRose had approached the joint administrators of LOG to acquire the entire debt and accrued interest due to LOG from the Company for the sum of £40 million in cash. The Board concluded to reject the proposal unequivocally and continue to state that this subsequent offer is a further transparent attempt by RockRose to deny both LOG's and LCAF's creditors, and by extension to LCAF's mini-bond holders, of fundamental value, seeking instead to reserve that value for the benefit of RockRose and those directly associated with RockRose. RockRose withdrew their proposal on 1 April 2019.
- The Company announced on 1 April 2019 that it had conditionally placed 165,795,050 new ordinary shares of £0.01 each in the capital of the Company by way of a placing at a price of 10 pence per Ordinary Share to raise gross proceeds of approximately £16.6 million. In addition, a further proposed issue of 3,250,000 new Ordinary Shares by way of a subscription at a price of 10 pence per Ordinary Share by certain directors and key executives of the Company. Furthermore, the Company announced that it intends to launch an open offer to shareholders to raise approximately £2 million through the issue of approximately 20,000,000 new Ordinary Shares, also at an issue price of 10 pence per share. This Fundraising is conditional, inter alia, upon the approval of shareholders at a general meeting of the Company that will take place on or around 23 April 2019 and the admission of the relevant new Ordinary Shares to London AIM.
- The Company announced on 1 April 2019, that concurrent to the Fundraising announcement above, the Company has proposed to restructure its debt with LOG (in administration) by rescheduling by twelve months an amount of £7.1 million of debt service due to LOG, the conversion of £1.64 million in interest due from LOG's existing convertible debt into new Ordinary Shares and a one year maturity extension to existing warrants being those 13,277,310 warrants which were granted by the Company in December 2015.
- The Skipper licence, P1609, was formally relinquished on 11 February 2019, as determined by the OGA.

Health, Safety and Environment ('HSE')

The corporate HSE policies were reviewed, renewed and re-issued in anticipation of further Licence Round applications during the year and the progressive selection and procurement of contracted services for the development of the Blythe and Vulcan Satellites gas hub developments. The revised policies provide clear corporate expectation and direction for the effective HSE planning and performance of activities.

The Company continued to develop its HSE organisation, arrangements and capabilities during the year. These corporate developments formed a significant part of the demonstration of necessary operator competencies that were submitted to the OGA in support of field licences for Blythe, Elgood, Nailsworth, Elland and Southwark. The arrangements also support the Group's applications in the OGA's 30th Offshore Licensing Round.

The selection process of suitable contracted services for the engineering, design and operation of the Blythe and Vulcan Satellites gas hub development incorporated appropriate HSE criteria and has been followed by the development and implementation of HSE bridging documentation with both partnered and contracted enterprises, some of whom are intended to undertake 'duty holder' responsibilities in the operations and maintenance of the Group's eventual offshore facilities, pipelines and wells.

Effective briefing and consultation with the regulatory authorities has been an essential activity during the year, in order to assure compliance and to secure the necessary permits and consents for the range of project activities. This has involved close contact with the OGA, HSE Pipelines Inspectorate and the BEIS Offshore Petroleum Regulator for Environment and Decommissioning ('OPRED').

In preparation of statutory Environmental Impact Assessments ('EIA') that are required to support the Blythe and Vulcan Satellites gas hub developments, an Early Consultation Document ('ECD') was circulated to over 40 identified potential stakeholder parties, including oil & gas operators, windfarm operators, regulatory bodies, non-government organisations ('NGO') and others with potential interest in the development. Responses to the ECD are being considered as our project develops, and in the preparation of the formal EIAs that follow. The EIAs will themselves be subject to public review and statutory consultation.

Business Strategy

The Company's strategy is to target stranded gas assets and dormant discoveries, especially those near to existing and ideally, owned infrastructure (the 'Hub Strategy'). These are assets that are no longer targets for the major oil and gas companies but are potentially profitable developments which can be beneficially developed by a smaller independent company, focused on the North Sea.

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

The aim is to build upon our existing gas portfolio in order to achieve a diversified and balanced portfolio of near and long-term developments, ideally with appraisal upside that complements our existing operations. This will include the acquisition of producing fields or near-term production if the risk is positively assessed and the acquisition price results in value accretion. The Directors believe that there is a significant opportunity for the Company to exploit this strategy, given that there are over 400 undeveloped and underdeveloped assets in the 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 is executing this strategy in order to create UK SNS gas hubs with the acquisition of the Blythe licence, along with operatorship, in addition to the acquisition of the Vulcan Satellites, the award of Licence P2342 (Nailsworth NW Extension) in the 2016 29th Offshore Supplementary Licensing Round and the successful award of the Harvey, Harvey South East, Goddard and Abbeydale licences in the 2018 30th Offshore Licensing Round.

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 and gas 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.

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

Licences

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

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

[1] Formerly Vulcan East
[2] Formerly Vulcan North West
[3] Formerly Vulcan South
[4] Skipper relinquished 11 February 2019

Licences (continued)

On 1 October 2018 Licences P2441 (Harvey SE) and P2442 (Abbeydale) commenced as Innovate A & C Licences and Licence P2438 (Goddard) commenced as an Innovate C Licence. The Innovate Licence replaces several earlier types of Seaward Production Licence: Traditional, Promote and Frontier. The Innovate Licence offers greater flexibility in the durations of the Initial and Second Terms (which was the main difference between the older licence types). An applicant for an Innovate Licence is able to propose the durations of the Initial and Second Terms, and among the permutations that may be proposed are those that represent those associated with each of the older licence types.

The Initial Term can now be subdivided into up to three phases, with the Work Programme being correspondingly divided:

- Phase A is a period for carrying out geotechnical studies and geophysical data reprocessing;
- Phase B is a period for undertaking seismic surveys and acquiring other geophysical data; and
- Phase C is for drilling.

Phases A and B are optional and depend on the applicant's plans. Every Work Programme must have at least a Phase C (just as a drilling commitment was the minimum Work Programme before the Innovate concept).

It remains the case that a Licence may only continue from the Initial Term into the Second Term if (among other things) the Initial Term Work Programme has been completed and surrendered 50% of the initial acreage. Similarly, an Innovate Licence may only continue from one Phase into another if that part of the Term Work Programme associated with the earlier Phase has been completed and if the Licensee has committed to complete that part associated with the next. When continuing into Phase C, the licensee must also demonstrate the technical and financial capacity to carry out the Phase C part of the Work Programme.

In special cases where an applicant does not propose any exploration at all and proposes to develop an existing field discovery or redevelop a field, a Licence may be awarded with no Initial Term; this is called a 'Straight to Second Term' Licence. Again, this was an option that was available before the Innovate concept.

Statement of Reserves & Resources

SNS Hubs Reserves

SNS Portfolio	Gas Reserves			Condensate Reserves		
Field	**(BCF)**			**(MMBbls)**		
Blythe Hub						
	1P	**2P**	**3P**	**1P**	**2P**	**3P**
Blythe	25.2	33.0	44.1	0.3	0.3	0.4
Elgood	14.7	21.7	32.6	0.1	0.2	0.3
Total Blythe Hub	**39.9**	**54.7**	**76.7**	**0.4**	**0.5**	**0.7**
Vulcan Satellites Hub						
	1P	**2P**	**3P**	**1P**	**2P**	**3P**
Nailsworth	60.4	99.4	147.2	0.6	1.0	1.5
Elland	39.9	55.0	72.9	0.0	0.0	0.1
Southwark	61.2	94.2	137.7	0.0	0.1	0.1
Total Vulcan Satellites Hub	**161.5**	**248.5**	**357.8**	**0.7**	**1.2**	**1.7**
Totals SNS Portfolio	**201.4**	**303.2**	**434.5**	**1.1**	**1.7**	**2.4**

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

Goddard Contingent Resources

	Contingent Gas Resources		
Discovery	**(BCF)**		
	1C	**2C**	**3C**
Goddard	54.3	107.8	202.8

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	27.8	48.8	**81.5**	52.3
Pop Up 2	14.0	24.2	39.9	25.9

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

Statement of Reserves & Resources (continued)

Harvey Prospective Resources

	Prospective Gas Resources		
Discovery	**(BCF)**		
	Low	**Best**	**High**
Harvey	85	129	199

Source: Management Estimates: September 2018

Abbeydale Contingent Resources

	Contingent Gas Resources		
Discovery	**(BCF)**		
	1C	**2C**	**3C**
Abbeydale	5	11	24

Source: Management Estimates: September 2018

Skipper STOIIP and Resources

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

[1] Relinquished 11 February 2019

Source: AGR Tracs CPR - September 2013.

Operational Update

Thames Pipeline

The acquisition of the Thames Pipeline from Perenco UK Limited, Tullow Oil SK Limited and Spirit Energy Resources Limited (Sale and Purchase Agreement, SPA1) completed on 16 April 2018.

On this date, the pre-acquisition costs for the Thames Pipeline and associated onshore Bacton Facility, previously held as a prepayment in the books of the parent company, IOG plc, were brought across to IOG Infrastructure Limited. Also, on this date, the Initial Thames Pipeline Decommissioning Security Amount of £500k was paid to Perenco UK. IOG Infrastructure Limited is the owner, user, holder and operator of the pipeline under the Pipeline Works Authority ('PWA').

The MV Fugro Galaxy mobilised in late January 2018 and as part of its work programme carried out surveys along the Thames Pipeline.

Preparation for the Intelligent Pigging Programme ('IPP') commenced on 20 February 2018 with onshore mechanical preparation work at the Bacton Terminal. The main IPP work took place in May 2018 and early June 2018. Three 12m pipeline sections were cut 60km offshore and retrieved to surface and indicated the pipeline to be in extremely good condition. Two successful pipeline pressure tests confirmed pipeline integrity and initial 60km gauge pigging runs from Bacton to the offshore tie-in point were successfully executed. The initial IPP run gathered insufficient data due to technical malfunction with the pig and an alternative strategy was planned and presented to the HSE.

In September 2018, a crawler pig run was completed from Bacton to c.1km offshore demonstrating the viability of this nearshore element of the line and the viability of the whole line and thus this export route was then confirmed by a 150 bar 24 hour hydrotest completed on 23 September 2019. Progress continued through 2H 2018 toward signing the Sales and Purchase Agreement (SPA2) for the Thames Reception Facility with owners Perenco, Tullow and Spirit Energy.

Other capital costs associated with the Thames Pipeline acquisition include potential tie-in studies (offshore → onshore), the Crown Estate lease associated with the 12-mile onshore boundary (of which the Thames Pipeline lies in situ), capitalised G&A and other directly attributable expenses.

Operational Update (continued)

Blythe

The Blythe gas discovery in the Rotliegend Leman Formation, straddles Blocks 48/22b and 48/23a in the SNS in licence P1736. IOGNSL has 100% working interest in 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 MV Fugro Galaxy mobilised in late January 2018 and as part of its work programme carried out surveys across the Blythe Hub (Blythe and Elgood fields) in support of field development. At Blythe this work included site surveys for platform location and pipeline route surveys to the tie-in point at the Thames pipeline, and environmental sampling. The Environmental Impact Assessment ('EIA') for the Blythe Hub was submitted on 31 January 2018 in line with milestones agreed with the UK Oil & Gas Authority ('OGA').

During development engineering studies in 1H 2018, it was decided to split the development into two Phases with Phase 1 development comprising Blythe, Elgood and Southwark and Phase 2 to include Nailsworth and Elland.

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. At year end, FID and subsequent EIA and FDP approval was expected to occur in late Q1 2019 with first gas from Southwark 20 months later in Q4 2020 and Blythe first gas in early Q1 2021, subject to project financing.

In July 2018 Wood carried out FEED studies to assess costs and schedule for the tie-in lines to the Thames Pipeline for the Phase 1 development including Blythe. In November 2018, offshore geotechnical surveys for the Blythe Platform were completed alongside geotechnical surveys at Southwark and at Harvey, where a geophysical site survey was also executed. Heerema also made progress with the FEED studies for the Blythe Platform in 2H 2018.

In December 2018 the initial Term of Licence P1736 containing Blythe was extended to 31 December 2019 subject to the condition that an FDP capable of approval would be received by the OGA by 30 June 2019 and FID would occur by 30 September 2019.

Operational Update (continued)

Elgood

IOGNSL has 100% working interest in and is operator of Licence P2260 (Block 48/22c), which was awarded in the 28th Licensing Round. The licence, which lies immediately to the north-west of the Blythe licence, contains the Elgood discovery 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 MV Fugro Galaxy mobilised in late January 2018 and as part of its work programme carried out surveys across the Blythe Hub (Blythe and Elgood fields) in support of field development. At Elgood this work included site surveys for pipeline route surveys to the tie-in point at Blythe and environmental sampling. The EIA for the Blythe Hub was submitted on 31 January 2018 in line with milestones agreed with the OGA.

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. At year end, FID and subsequent EIA and FDP approval was expected to occur at end Q1 2019 with first gas at Southwark 20 months later in Q4 2020 and Elgood first gas in Q2 2021 subject to project financing.

In July 2018 Wood carried out FEED studies to assess costs and schedule for the tie-in lines to the Thames Pipeline for the Phase 1 development including Elgood.

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, subject to the condition that an FDP capable of approval would be received by the OGA by 30 June 2019 and FID would occur by 30 September 2019.

Operational Update (continued)

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) to the Thames Pipeline. All three satellites have their reservoirs in the Rotliegend Leman Sandstone.

The MV Fugro Galaxy mobilised in late January 2018 and as part of its work programme carried out surveys across the Vulcan Satellites Hub (Southwark, Nailsworth and Elland fields) in support of field development. This work included site surveys for platform locations and pipeline route surveys to the tie-in point at the Thames Pipeline and environmental sampling. The EIA for the Vulcan Satellites Hub was submitted in April 2018 in line with milestones agreed with the OGA.

During development engineering studies in 1H 2018 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. At year end, FID and subsequent EIA and FDP approval was expected to occur at end Q1 2019 with first gas at Southwark 20 months later in Q4 2020, subject to project financing.

In July 2018, Wood carried out FEED studies to assess costs and schedule for the tie-in lines to the Thames Pipeline for the Phase 1 development including Southwark. In November 2018, offshore geotechnical surveys for the Southwark platform were completed alongside geotechnical surveys at Blythe and at Harvey, where a geophysical site survey was also executed. Heerema made progress with the FEED studies for the Southwark platform in 2H 2018 and FEED works were also completed by ODE for the refurbishment at the Bacton Terminal.

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

Given the development deferral of both Elland and Nailsworth (Phase 2), most current year 2018 fixed asset additions have been attributable to the Southwark development area.

Further to the Vulcan East suspended well decommissioning paper, prepared by Acona in April 2015, IOGUKL believes that the abandonment provision of £3.60 million continues to represent a reasonable cost estimate. Decommissioning of this suspended well has been targeted as part of the Vulcan Satellites development program; however, as this particular well is not assigned for development, this activity remains uncertain and may be further deferred subject to agreement with the OGA.

Operational Update (continued)

Harvey

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^{th} Licensing Round and in Licence P2441 awarded in the 30^{th} Licensing Round. These blocks contain 100% of the Harvey Structure with the reservoir targeted in the Rotliegend Leman Sandstone Formation.

In the first half of 2018 work on P2085 and adjacent open areas focused on reprocessing of existing 3D seismic data to Pre-Stack Depth Migration level with Schlumberger WesternGeco to support the selection of a well location for the firm Harvey well committed on P2085 in late 2017.

Following the completion of seismic reprocessing in July 2018, the dataset was reinterpreted and remapped. This remapping led to a new volumetric assessment of gross unrisked Prospective Resources (as estimated by management) at Harvey of 85-129-199BCF (Low-Mid-Best Estimate) versus the 2017 CPR estimate of 45-114-286BCF. Management's assessment of Geological Chance of Success at Harvey is 63%. The gross volumes were secured by IOG with the award of Licence P2441 (SE Harvey) in the 30^{th} UKCS Offshore Licensing Round, with licence commencement on 1 October 2018. Under the licence a firm commitment was made to the Oil and Gas Authority ("OGA") to reprocess 87km^2 of 3D seismic to PSDM and drill a well to 2,345m TD or drop the Licence.

In support of the Licence P2085 firm well commitment a Letter of Intent was signed with Ensco for the Ensco 72 Jack-Up Drilling Unit for the drilling of a Harvey appraisal well in 2019 to be spud before 20 September 2019. Halliburton are under LOI to provide well services and Fraser Well Management were identified as drilling operator. Technical work proceeded to the point where a well location was selected for the Harvey well in October 2018 and permitting and planning to drill the well in 1Q 2019 subject to funding were advanced.

All costs associated with developing the Harvey SE extension are now incorporated within the main Harvey licence P2085, as determined by one single field area. Management will continue to account for any minor licence admin costs (licence fee, OGA levy etc.) associated with P2441 separately.

Resources in the other discoveries and prospects on the Harvey area blocks will be subject to evaluation and appraisal following the results of the 3D seismic reprocessing.

Operational Update (continued)

Goddard

On 23 May 2018, IOG was offered Blocks 48/11c & 48/12b in the 30th UKCS Licensing Round and accepted the offer as Provisional Licence P2438 which contains Goddard, hitherto known as Glein, a dormant 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^2 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 work on Goddard focused on securing access to 3D seismic data processed to PSDM level across the Goddard licence. This dataset was secured from a previous operator. On licence commencement it was decided to submit the work done to date to ERC Equipoise, as the Competent Person, for audit purposes. Based on the 30th Round Licence Application document, management estimates of Contingent Resources were 1C/2C/3C 45/189/396BCF. ERC Equipoise completed their work and assessed gross unrisked 1C/2C/3C Contingent Resources of 54.3/107.8/202.8 BCF and Low/Best/High gross unrisked prospective gas resources are 41.8/73.0/121.4 BCF. The CPR assesses the geological chance of success of the prospective gas resources at 48%. The chance of development of Goddard is estimated by ERC Equipoise as being 75%.

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 1 Core development planning.

Abbeydale

On 23 May 2018, IOG was offered Block 53/1b in the 30th UKCS Licensing Round and accepted the offer as Provisional Licence P2442 which contains the Abbeydale dormant gas discovery, hitherto known as Aberdonia, which was discovered in 1996. Licence P2442 formally commenced on 1 October 2018. Under the four-year Licence, a commitment was made to reprocess 150 km^2 3D seismic data to PSDM and drill a well to 1,960m TD or drop the licence. 2H 2018 work focused on securing prices for 3D reprocessing.

Management estimates contingent resources on Abbeydale are 1C/2C/3C 5/11/24 BCF. The new 3D seismic work programme is expected to increase these estimates to more commercial levels with a view to tying into IOG's Thames Pipeline as the export route.

Operational Update (continued)

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, particularly those already in production, 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.

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

Investment Returns: Management seeks to raise funds and then to generate shareholder returns through investment in a portfolio of exploration and development acreage leading to the drilling of wells, the discovery of commercial reserves followed by their exploitation. Delivery of this business model carries several key risks.	
Risk	**Mitigation**
Market support may be eroded obstructing fundraising and lowering the share price	• Management regularly communicates its strategy to shareholders • Focus is placed on building an asset portfolio capable of delivering regular news flow and offering continuing prospectivity
General market conditions may fluctuate hindering delivery of the Company's business plan	• Management aims to retain adequate working capital and secure finance facilities sufficient to ride out downturns should they arise
Each asset carries its own risk profile and no outcome can be certain	• Management aims to avoid over-exposure to individual assets and to identify the associated risks objectively
Company may not be able to raise funds to exploit its assets or continue as a going concern	• Management is pursuing specific and appropriate plans for funding the development of its asset portfolio and is confident in a successful outcome • Progress is ongoing with these potential funding routes and on 1 April 2019 the Company announced a fund raise of £16.6m (gross) as well as a concurrent amendment to the term of £7.1m of LOG loan notes. As set out in Note 1 the Group will require additional funding within the next twelve months in order to meet its working capital needs, development plans and loan repayment schedule.
Company has given security over its assets to its lender, LOG	• Management is in discussion with the Administrators of LOG who have acknowledged the importance of developing the Company's assets in order to return value to LCAF bond holders. The LOG shareholders have made public announcements of their intention to continue to support the Group and that the Group's ongoing operations are not adversely affected by the LOG Administration.

Principal Risks and Uncertainties (continued)

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

Licensing & Regulation: The Group may be unable to meet its licence and regulatory obligations	
Risk	**Mitigation**
UKCS Licences may be revoked	• Continue thorough communications with the OGA to determine licence status and meet requirements

Personnel: The Company relies upon a pool of experienced and motivated personnel to identify and execute successful investment strategies	
Risks	**Mitigation**
Key personnel may be lost to other companies	• The Remuneration Committee regularly evaluates incentivisation schemes to ensure they remain competitive
Difficulty in attracting the necessary talent as the Group moves into development of its projects	• The Group continues to review and adopt attractive packages for both staff and contractors

Principal Risks and Uncertainties (continued)

Commercial environment: World and regional markets continue to be volatile with fluctuations and infrastructure access issues that might hinder the Company's business success	
Risk	**Mitigation**
Volatile commodity prices mean that the Company cannot be certain of the future sales value of its products	• Price mitigation strategies may be employed at the point of major capital commitment • Gas may be sold under long-term contracts reducing exposure to short term fluctuations • Oil and gas price hedging contracts may be utilised where viable • Budget planning considers a range of commodity pricing
Brexit	• The Group does not see Brexit having a significant impact on its business model – the Company's production will be indigenous, and the UK gas market is not forecast to be significantly directly impacted by an exit from the EU, being a substantial core element of UK primary energy demand. However, access to overseas personnel and equipment may be affected to a greater or lesser extent, depending on the precise Brexit outcome
The Group may not be able to get access, at reasonable cost, to infrastructure and product markets when required	• A range of different off-take options are pursued wherever possible
Credit to support field development programmes may not be available at reasonable cost	• The Company seeks to build and maintain strong banking relationships and initiates funding discussions at as early a stage a practicable

Corporate Hedging Strategy and Implementation

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

No hedging instruments were utilised during 2018 in view of the limited exposures carried during the year. As the Company's capital investment programmes increase, hedging will be carried out in a simple and cost-effective manner, retaining exposure to upside but avoiding any speculative exposure to commodity prices or exchange rates. The application of the policy is within a range to require exercise of management judgement in the light of market conditions and business variables.

Details of the 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.

Finance Review

Income Statement

The Group made a loss for the year of £5.64 million (2017 – £2.75 million).

Further post 2016 well drilling expenses on the Skipper asset, resulted in an impairment charge to the Income Statement of £184k (refer Note 8). There was no other impairment made against oil and gas properties during the year. This compares with the £119k impairment charged in 2017 which included £85k for Skipper post well drilling expenses together with £34k on the relinquishment of Licence P2122.

A charge of £922k (2017: £430k) to the Income Statement reflects the expenses incurred for pre-licence activity, business development ('BD') and other corporate project activity and expenses.

Administration expenses of £974k (2017 – £700k) for the year comprise gross general and administration ('G&A') expenses of £3.19 million (2017 - £2.12 million) including non-cash share-based payment expense of £378k (2017 - £298k), net of both the allocation of £702k (2017 - £666k) attributable to pre-licence activity, BD and other corporate projects, as included in the £922k above, and the allocation of £1.52 million (2017 - £757k) capitalised to assets throughout the Group. The increase in gross G&A expenses highlights the further significant increase in resource required to support the Group's accelerating SNS capital projects and other capital activities during the year.

The net loss on settlement of liabilities of £106k (2017: £1k) reflects both realised and unrealised movements on the settlement of liabilities via the issue of shares.

The foreign exchange loss of £334k (2017: gain £333k) reflects foreign exchange movements on non-GBP denominated loans, provisions and trade creditors.

Finance expense of £3.12 million (2017 – £1.83 million) includes accrued interest payable on loans (net of capitalised interest £752k (2017 - £22k)), 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 increased to £41.53 million (2017: £21.32 million) during the year, which represents capital expenditure on Front End Engineering Design ('FEED'), the Thames Pipeline acquisition and other pre-development activities with respect to Blythe, Elgood and the Vulcan Satellites. The £20.21 million increase includes the Thames Pipeline acquisition, pigging operations and other associated onshore and offshore pipeline engineering studies. The Group also completed several subsea activities including surveys on all pre-development pipeline routes together with subsurface geotechnical surveys for both Blythe and Southwark. Other capital cost drivers included further platform studies and miscellaneous pre-FID work programmes associated with the dual hub development strategy.

The Harvey, Goddard and Abbeydale exploration and evaluation ('E&E') assets represent the E&E portfolio at 31 December 2018, with a net book value of £2.35 million (2017: £185k) to the Group at 31 December 2018. This increase essentially consists of capital costs associated with the aforementioned Harvey appraisal well, including geophysical, geotechnical and well site surveys and pre-drill engineering and planning.

Current assets have increased to £1.37 million (2017: £1.11 million) mainly resulting from an increase in cash resources of £557k to £702k and recognition of prepaid financing costs of 291k. This prepayment includes miscellaneous direct financing fees incurred with regard to the Company's debt and equity funding efforts.

Total liabilities have increased to £51.07 million (2017: £27.40 million) mainly resulting from further drawings on the loans provided by London Oil & Gas Limited ('LOG') (see table below). Total liabilities comprise LOG Loan facilities of £34.03 million (2017: £13.00 million) offset by £4.21 million (2017: £0.61 million) loan finance costs, Skipper deferred trade creditors of £2.22 million (2017: £4.46 million), SNS Project creditors £3.41 million (2017: £0.18 million), other creditors £0.32 million (2017: £0.19 million), deferred consideration in relation to acquisitions of £6.19 million (2017: £6.01 million), the Vulcan East suspended well abandonment provision of £3.60 million (2017: £3.60 million), the Thames Pipeline decommissioning provision of £2.04 million (2017: £nil) and accruals of £3.47 million (2017: £0.57 million).

Cash Flow

Net cash outflows of £3.04 million (2017: £1.05 million) from operations, £14.82 million (2017: £3.40 million) from investing activities and £0.43 million (2017: £2.03 million) from loan repayments and financing activities were funded via loan drawings and the issue of equity instruments in the Company totalling £18.85 million (2017: £6.38 million).

The Directors will not be recommending payment of a dividend.

Finance Review (continued)

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

- 4 December 2015 - the Company secured agreement for a loan of £2.75 million from LOG in parallel with a £2.00 million loan from GE Oil & Gas UK Limited ('GE');
- 11 December 2015 - a further loan of £0.80 million was provided by LOG;
- 5 February 2016, a further £10.00 million loan was provided by LOG, convertible at 8p;
- 21 February 2018, a further £10.00 million loan was provided by LOG, convertible at 19p; and finally
- 13 September 2018, a further £15.00 million loan was provided by LOG.

On 21 December 2017, both the outstanding GE loan and GE Skipper creditor (provision of wellhead equipment and services) were renegotiated under the terms of a Conversion Deed ('CD') and a Deferred Payment Deed ('DPD') allowing circa 50% of the total outstanding liability to be converted to equity, with the remaining liability to be settled in cash. Similar CD and/or DPD arrangements were negotiated for all other remaining Skipper creditors which resulted in a total of £1.98 million being subject to conversion with a further £2.44 million and USD 2.75 million to be settled in cash, with an original settlement date of 31 August 2018.

The LOG loans are secured over the Group's assets and are due to be redeemed thirty-six months following each individual drawdown. All outstanding LOG debt is redeemable after 31 December 2018. Interest of LIBOR + 9% per annum accrues on a cumulative monthly basis on each drawdown, other than the £15.00 million loan which accrues interest at the higher rate of LIBOR + 11% from 1 December 2018.

Table 1: Summary Loans with LOG

	Facility Amount (£ million)	Available until	Interest rate	Warrants / Convertible details	Repayment by
LOG	2.75	31 Dec-19	LIBOR + 9%.	5,777,310 warrants @ 11.9p	36 months from drawing
LOG	0.80	31 Dec-19	LIBOR + 9%.	7,500,000 warrants @ 8p	36 months from drawing
LOG	10.00	31 Dec-19	LIBOR + 9%.	8p conversion price	36 months from drawing
LOG	10.00	21 Feb-22	LIBOR + 9%	19p conversion price	36 months from drawing
LOG	15.00	13 Mar-19	LIBOR + 9% / 11% wef 1 Dec-18	20,000,000 warrants @ 32.18p	36 months from drawing
	£38.55				

All Conditions Precedent to the LOG loans have been met and have been drawn with agreement from LOG.

The aim of the £10.00 million LOG loan from February 2016 was to support G&A expenditures, together with acquisitions in the endemic oil and gas E&P sector low-price environment, but also organic growth. During 2016, the additional 50% acquisition of the Blythe licence was funded from this facility, together with the acquisition of Oyster Petroleum Limited (renamed IOG UK Limited), incorporating the Vulcan Satellite assets. The loan, including accrued interest, may be converted into new ordinary Company shares at a price of 8p per share at LOG's election prior to repayment. This loan has a coupon of LIBOR + 9%, which is deferred until maturity.

The main purpose of the £10.00 million loan from February 2018 was to support G&A expenditures, repay outstanding Skipper creditors and to fund the Group through to Final Investment Decision ('FID') on its SNS development projects. The loan, including accrued interest, may be converted into new ordinary Company shares at a price of 19p per share at LOG's election prior to repayment. This loan has a coupon of LIBOR + 9%, which is deferred until maturity.

The main purpose of the £15.00 million loan from September 2018 was to fund the drilling of the Harvey appraisal well, repay outstanding Skipper creditors which had been further deferred, and cover ongoing overheads. The loan was issued together with 20,000,000 warrants which may be converted into new ordinary Company shares at LOG's election at a warrant subscription price of 32.18p, prior to the maturity date of 13 September 2023.

The Group had £34.03 million borrowings outstanding on its LOG facilities at 31 December 2018 (2017 - £13.00 million) including accrued interest. It had in place further undrawn debt from the LOG facilities of a total £7.85 million, excluding accrued interest, at that date. A further £3.925 million was drawn in January 2019 and £3.925 million outstanding remains. The Company notes that at time of writing London Oil and Gas Ltd has been placed into administration as has London Capital and Finance, from whom LOG secured loan finance to provided IOG's funding above. The Company has engaged with LOG and LCAF administrators who have stated publicly that they will support IOG and the LOG/LCAF administration process will have no impact on the Company's business.

The Company has recently announced the rescheduling by 12 months, initially to January 2020, of £7.1 million of debt service due to LOG over the course of 2019, the conversion of £1.64 million of interest due from LOG's existing convertible debt into new Ordinary Shares and a 12-month maturity extension pursuant to those 13,277,310 warrants that were issued to LOG by the Company in December 2015.

Finance Review (continued)

Funding & Liquidity

The Board has reviewed the Group's cash flow forecasts up until April 2020 having regard to its current financial position and operational objectives. Notwithstanding the recent announcements made on 1 April 2019 with regard to both fundraising and the restructuring of the LOG debt, these forecasts indicate that the Group will need additional funding to enable it to progress with its planned development activities and to meet its liabilities as they fall due in the period from 1 January 2020. The Board; however, is satisfied that the Group will have sufficient financial resources available to meet its commitments based on the likelihood of the Group being able to secure additional funding from existing stakeholders, the farmout of existing assets and/or funding from new investors. The Consolidated Statement of Financial Position at 31 December 2018 details a net liability position of the Group of £5.8 million; however, the funding and LOG restructuring, pursuant to the announcement on 1 April 2019, will both provide increased equity and the reduction of debt on the balance sheet, Management identify this trend as an important steer to deliver its dual Hub Strategy and the development of its gas asset portfolio. Accordingly, the Board continue to adopt the going concern basis for the preparation of these financial statements.

However, at the date of approval of these financial statements there are no legally binding agreements in place relating to future fundraising. There can be no certainty that additional funds will be forthcoming which therefore indicates the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern and therefore it may be unable to realise its assets and discharge its liabilities in the normal course of business. The financial statements do not include the adjustments that would result if the Group was unable to continue as a going concern.

The Strategic Report and Finance Review on pages 4 to 22 have been issued and signed on behalf of the Board.

Andrew Hockey
Chief Executive Officer
4 April 2019

Board of Directors

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

Fiona MacAulay – Non-Executive Chair (appointed 10 July 2018)

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. Currently serving as the European President of the American Association of Petroleum Geologists.

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

Having worked in the industry for 36 years, Andrew Hockey has significant sector experience. He has a technical background with a degree in geology from Oxford University, and a master's degree in petroleum geology from Imperial College London. Until the end of 2015 Andrew was General Manager of Business Development at UKCS oil and gas exploration and production company Fairfield Energy Limited which he helped to found in 2005. Andrew led the team to acquire Clipper South as an undeveloped discovery from Shell and Esso and then subsequently managed its development via farm down and funding through to first gas in 2012. Andrew is now a non-executive director of Fairfield Energy and a founder of its parent company, Decom Energy Limited. Andrew has also served on the board of AIM-listed Sound Energy plc, an upstream company with onshore interests in Italy and Morocco, where he was a Non-Executive Director from 2011-2015 and Chairman from 2012-2014.

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

Martin has over 40 years' experience in the Financial Services Industry. Martin initially worked for a top 20 life assurance company for 25 years, the last 9 years as Chief Investment Officer being involved in all forms of investment, taxation and new product development within the company. Following a takeover, he left to move to the broking side of the investment community working for Swiss Bank, Citicorp and Smith New Court. Martin then spent 12 years with Charterhouse Securities who were voted number one in the small cap market and then spent 6 years with Seymour Pierce, at the time, the largest AIM Broker in London. He has vast experience and has overseen more than 200 institutional fund raisings including new listings, placings and rights issues. His current Non-Executive Director positions include: LOG, London Power Corporation plc and the Company. Following the investments by LOG into the Group, Martin is an appointed LOG Board representative pursuant to the execution of the LOG loan agreements.

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

Charles Hendry was Minister of State for Energy from May 2010 until September 2012. Since leaving ministerial office he has undertaken a wide range of roles, including as President of the British Institute of Energy Economics, chair of the Forewind Consortium from 2013-2015, and in 2016 he was appointed by the UK Government to lead a review into the strategic case for tidal lagoons and their role in the UK energy mix. His current Non-Executive Director positions include: LOG, London Power Corporation plc and the Company. Following the investments by LOG into the Group, Charles Hendry is an appointed LOG Board representative pursuant to the execution of the LOG loan agreements.

Mark Hughes – Chief Operating Officer (appointed 18 April 2018)

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 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. As Senior Independent Non-Executive Director, Esa will chair the Company's Audit Committee and serve on the Remuneration and Nominations committee.

Remuneration Policy

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

Options and Long-Term Incentive Plan Policy

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

Salary Sacrifice Arrangements

The Directors may establish further share incentive arrangements for the benefit of the Group's employees in the future. Any options to be granted under any such share incentive arrangements will be at the discretion of the Remuneration Committee. Options may also be granted to both non-executive directors and consultants.

During the year, resulting from cash constraints on the Company and a desire to ensure that these limited resources were focussed on operations, the service agreements of personnel were varied such that cash payments were reduced, and the difference settled by options granted with a strike price of 1p. The number of options granted is determined by the Company's volume weighted average share price for each six-month period of salary or fee sacrifice. Further details can be found in Notes 4 and 16 to the financial statements.

Corporate Governance Statement

The Directors recognise the importance of sound corporate governance. The Company has adopted the Quoted Companies Alliance Corporate Governance Code ("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 existing and ideally, owned infrastructure (the 'Hub Strategy'). These are assets that are no longer targets for the major oil companies but are potentially profitable developments which can be beneficially developed by a smaller independent company, focused on the North Sea.

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

The aim is to build upon the existing development gas assets in order to achieve a diversified and balanced portfolio of near and long-term developments, ideally with appraisal upside that complement the existing operations. This will include the acquisition of producing fields or near-term production if the risk is positively assessed and the acquisition price results in value accretion. The Directors believe that there is a significant opportunity for the Company to exploit this strategy, given that there are over 400 undeveloped and underdeveloped assets in the 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.

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.

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@independentoilandgas.com

Institutional shareholders

The Directors actively seek to build a relationship with institutional shareholders. Shareholder relations are managed primarily by the Chief Financial Officer, supported by the Chief Executive Officer, 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@independentoilandgas.com

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

We have: -

Introduced a Maternity Policy

Our maternity pay policy is for an employee taking maternity leave to receive six weeks at 100% pay and a further seven weeks at 50% pay followed by 26 weeks during which they will receive Statutory Maternity Pay. A further 13 weeks unpaid leave may be taken.

Developed a Staff Handbook

Following a significant increase in staff numbers over the past year, we have written a staff handbook 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

Over the past year we have: -

Developed a Supply Chain Action Plan as required by the OGA.

As part of the process to submit Field Development Plans to the Oil & Gas Authority, the Company has developed a Supply Chain Action Plan.

Health, Safety and Environment ('HSE')

Over the past year, the corporate HSE policies were reviewed, renewed and re-issued. These policies support further Licence Round applications during the period and the progressive selection and procurement of contracted services for the development of the Blythe and Vulcan Satellites gas hub developments. The revised policies provide clear corporate expectation and direction for the effective HSE planning and performance of activities.

The Health and Safety Policy and the Environmental Management Policy are published on the Company Website and both are displayed in the Company's offices.

The Company has continued to develop its HSE organisation, arrangements and capabilities. These corporate developments formed a significant part of the demonstration of necessary operator competencies that were submitted to the OGA in support of our field licences. The arrangements also support applications in the OGA Licensing Rounds.

Selection of suitable contracted services for the engineering design and operation of the Blythe and Vulcan Satellites gas hub development incorporated suitable HSE criteria and has been followed by the development and implementation of HSE bridging documentation with our partnered and contracted enterprises, some of whom are intended to undertake 'duty holder' responsibilities in the operations and maintenance of our eventual offshore facilities, pipelines and wells.

Effective briefing and consultation with the regulatory authorities has been an essential activity during the period, in order to assure compliance and secure necessary permits and consents for the range of project activities. This has involved close contact with the OGA, HSE Pipelines Inspectorate and the BEIS Offshore Petroleum Regulator for Environment and Decommissioning ('OPRED').

To aid preparation of the statutory Environmental Impact Assessments ('EIA') that are required to support our Blythe and Vulcan Satellites gas hub developments, an Early Consultation Document ('ECD') was circulated to over 40 identified potential stakeholder parties, including oil & gas operators, windfarm operators, regulatory bodies, non-government organisations ('NGO') and others with potential interest in the development. Responses to the ECD are being considered as our project develops and in the preparation of the formal EIAs that follow. The EIAs will themselves be subject to public review and statutory consultation.

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.

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 and contingent resources and proved reserves inventories. Financial performance is tracked through the raising of finance to fund proposed programmes and the control of costs against budgets.

Principal Risks and Uncertainties

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

Key risks and associated mitigation

Investment Returns

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

Risk	Mitigation
Market support may be eroded obstructing fundraising and lowering the share price	• Management regularly communicates its strategy to shareholders • Focus is placed on building an asset portfolio capable of delivering regular news flow and offering continuing prospectivity
General market conditions may fluctuate hindering delivery of the Company's business plan	• Management aims to retain adequate working capital and secure finance facilities sufficient to ride out downturns should they arise
Each asset carries its own risk profile and no outcome can be certain	• Management aims to avoid over-exposure to individual assets and to identify the associated risks objectively
Company may not be able to raise funds to exploit its assets or continue as a going concern	• Management maintains regular dialogue with a variety of potential funding partners.
Company has given security over its assets to its lender, LOG	• Management is in discussion with the Administrators of LOG who have acknowledged the importance of developing the Company's assets in order to return value to LCAF bond holders. The LOG shareholders have made public announcements of their intention to continue to support the Group and that the Group's ongoing operations are not adversely affected by the LOG Administration.

Operations

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

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

Corporate Governance Statement (continued)

Licensing & Regulation

The Group may be unable to meet its licence and regulatory obligations.

Risk	Mitigation
UKCS Licences may be revoked	• Continue thorough communications with the OGA to determine licence status and meet requirements

Personnel

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

Risks	Mitigation
Key personnel may be lost to other companies	• The Remuneration Committee regularly evaluates incentivisation schemes to ensure they remain competitive
Difficulty in attracting the necessary talent as the Group moves into development of its projects.	• The Group continues to review and adopt attractive packages for both staff and contractors

Commercial Environment

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

Risk	Mitigation
Volatile commodity prices mean that the Company cannot be certain of the future sales value of its products	• Price mitigation strategies may be employed at the point of major capital commitment • Gas may be sold under long-term contracts reducing exposure to short term fluctuations • Oil and gas price hedging contracts may be utilised where viable. • Budget planning considers a range of commodity pricing
Brexit	• The Group does not see Brexit having any significant impact on its business model. The Company's production will be indigenous, and the UK gas market is not forecast to be significantly directly impacted by an exit from the EU, being a substantial core element of UK primary energy demand. However, access to overseas personnel and equipment may be affected to a greater or lesser extent, depending on the precise Brexit outcome
The Group may not be able to get access, at reasonable cost, to infrastructure and product markets when required	• A range of different off-take options are pursued wherever possible
Credit to support field development programmes may not be available at reasonable cost	• The Company seeks to build and maintain strong banking relationships and initiates funding discussions at as early a stage a practicable

Corporate Hedging Strategy and Implementation

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

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

Corporate Governance Statement (continued)

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 2018, the Board approved and adopted an updated Financial Operating Policy for the Group.
- 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:

- 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

All material contracts are required to be reviewed and signed by a senior Director of the Company. Major contracts require the signature of 2 directors.

Corporate Governance Statement (continued)

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 comprises the Non-Executive Chair, two Executive Directors and three Non-Executive Directors. On 1 January 2019 Fiona MacAulay became Chair succeeding Mark Routh, who stepped down on this date. On 1 March 2018, Andrew Hockey was appointed CEO. In April 2018 Mark Hughes, COO was appointed as a director of the Company and its three subsidiaries.

On 9 January 2019 Fiona MacAulay became interim Chair of the Audit Committee, succeeding Martin Ruscoe, who had held the role since February 2018. She continues as the Chair of the HSE and Technical subcommittee of the Board.

The Board considers, after careful review, that its previous Non-Executive Directors brought an independent judgement to bear. Fiona MacAulay had previously been appointed as the Company's Senior Non-executive director on 10 July 2018 and qualifies as independent. The Company is currently recruiting one further Independent Directors. Both Charles Hendry and Martin Ruscoe are considered non-independent since they are appointees from the Company's major investor London Oil and Gas Limited.

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

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.

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 to and, where appropriate, agreed with the rest of the Board.

Directors' Attendance:

Director	Board	Audit Committee	Remuneration and Nominations Committee
Andrew Hay	2 (of 2)	n/a	n/a
Andrew Hockey	17	n/a	n/a
Charles Hendry	17	6 (of 6)	1 (of 1)
Fiona MacAulay	9 (of 9)	2 (of 2)	1 (of 1)
Mark Hughes	11 (of 11)	n/a	n/a
Mark Routh	17 Chair	n/a	1 (of 1) Chair
Martin Ruscoe	17	6 (of 6) Acting Chair	1 (of 1)

Corporate Governance Statement (continued)

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.

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

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.independentoilandgas.com/board.html.

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.

Over the next 12 months we intend to more formally review the performance of what is a new board team as a unit, using external consultants where appropriate, to ensure that the members of the Board collectively function in an efficient and productive manner.

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 meetings and messages.

Corporate Governance Statement (continued)

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 into our Staff 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 the Group HR.

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 2018, the Board met for its twelve scheduled meetings and five further ad-hoc meetings. 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 Chairman. 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, James Chance the Chief Financial Officer, Mark Hughes the Chief Operating Officer, Rupert Newall, Head of Corporate Finance 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 plc 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.

Corporate Governance Statement (continued)

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: -

Audit Committee

The Audit Committee comprises Esa Ikaheimonen (Chair), Fiona MacAulay, Martin Ruscoe and Charles Hendry. The Audit Committee has primary responsibility for monitoring the quality of internal controls and ensuring that the financial performance of the Group is properly measured and reported on. In addition, it receives, and reviews reports from the Company's management and auditors. The Audit Committee meets at least twice a year and has unrestricted access to the Company's auditors.

Remuneration & Nominations Committee

The Remuneration Committee comprises Fiona MacAulay (Chair), Martin Ruscoe and Charles Hendry. The Remuneration Committee determines the remuneration of the executive directors and grants share options and any other equity incentives pursuant to any share option scheme or LTIP in operation from time to time. The Remuneration Committee meets at least twice a year.

The Nomination Committee comprises Fiona MacAulay (Chair), Martin Ruscoe and Charles Hendry. The Committee is chaired by the Chair unless the matter under discussion is their own succession. Other Directors are invited to attend as appropriate and only if they do not have a conflict of interest. The Committee is also assisted by executive search consultants as and when required. The Committee's principal responsibility is to lead the process for Board appointments and to make recommendations for maintaining an appropriate balance of skills on the Board.

HSE and Technical Committee

The HSE and Technical Committee comprises Fiona MacAulay (Chair), Andrew Hockey and Mark Hughes. 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.

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.independentoilandgas.com.

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.independentoilandgas.com/reports.html.

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
4 April 2019

"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;
''API''	a standard measure of oil density, as defined by the American Petroleum Institute;
''appraisal well''	a well drilled as part of an appraisal drilling programme which is carried out to determine the physical extent, reserves and likely production rate of a field;
''barrels'' or ''bbls'' or "Bbls"	a unit of volume measurement used for petroleum and its products (for a typical crude oil 7.3 barrels ≈ 1 tonne: 6.29 barrels ≈ 1 cubic metre);
''BCF'' or "BCF" or "Bscf"	billion (10^9) standard cubic feet; 1 BCF is approximately equal to 172,414 Boe or 23,618 tonnes of oil equivalent, using a factor of 5.8 BCF per MMBbls;
''Best Estimate''	the middle value in a range of estimates considered to be the most likely. If based on a statistical distribution, can be the mean, median or mode depending on usage;
''block''	an 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;
"Carboniferous"	a geological period and system that extends from the end of the Devonian Period, about 359 million years ago, to the beginning of the Permian Period, about 299 million years ago;
''Contingent Resources''	those quantities of petroleum estimated, as of a given date, to be potentially recoverable from known accumulations by application of development projects, but which are not currently considered to be commercially recoverable due to one or more contingencies;
''Cretaceous''	geological strata formed during the period 140 million to 65 million years before the present;
''discovery''	an exploration well which has encountered hydrocarbons for the first time in a structure;
''farm-in''	when a company acquires an interest in a block, by taking over all, or part of, the financial commitment for drilling an exploration well;
''farm-out''	to assign an interest in a licence to another party;
''FDP''	field development plan;
''field''	an area consisting of either a single reservoir or multiple reservoirs, all grouped on or related to the same individual geological structural feature and/or stratigraphic condition;
''formation''	a layer or unit of rock. A productive formation in the context of reservoir rock;
"ft"	foot/feet;
"G&A"	general and administrative;
"GIIP"	gas initially in place;
''gross resources''	the total estimated petroleum that is potentially recoverable from a field or prospect;

''hydrocarbon''	a compound containing only the elements hydrogen and carbon. May exist as a solid, a liquid or a gas. The term is mainly used in a catch-all sense for oil, gas and condensate;
''km''	kilometre;
''km^2'' or "sq. km"	square kilometres;
''licence''	an exclusive right to search for or to develop and produce hydrocarbons within a specific area. Usually granted by the State authorities and may be time limited;
''Mcf'' or "mcf"	thousand standard cubic feet;
"Mcfd" or "mcfd"	thousand cubic feet per day;
"MMbbl" or "MMBbls"	millions (10^6) of barrels of oil;
"MMBO"	million (10^6) barrels of oil;
"MMBOE"	million (10^6) barrels of oil equivalent;
"MMcf"	million (10^6) cubic feet;
"MMcfd"	million (10^6) cubic feet per day;
"MMscf"	million (10^6) standard cubic feet;
"MMscfd"	million (10^6) standard cubic feet per day;
"NUI"	Normally Unmanned Installation;
''oil''	mixture of liquid hydrocarbons of different molecular weights;
''oil equivalent''	international standard for comparing the thermal energy of different fuels;
''operator''	the company that has legal authority to drill wells and undertake production of hydrocarbons found. The operator is often part of a consortium and acts on behalf of such consortium;
"P90"	in the probabilistic estimation of hydrocarbon reserves, a term referring to the quantity of recoverable hydrocarbons from a reservoir having a 90 per cent. probability of being produced. Often also referred to as Proved or 1P;
"P50"	in the probabilistic estimation of hydrocarbon reserves, a term referring to the quantity of recoverable hydrocarbons from a reservoir having a 50 per cent. probability of being produced. Often also referred to as "Proved + Probable" or 2P;
"P10"	in the probabilistic estimation of hydrocarbon reserves, a term referring to the quantity of recoverable hydrocarbons from a reservoir having a 10 per cent. probability of being produced. Often also referred to as "Proved + Probable + Possible" or 3P;
''petroleum''	a generic name for hydrocarbons, including crude oil, natural gas liquids, natural gas and their products;
''probable reserves''	those unproved reserves which analysis of geological and engineering data suggests are more likely than not to be recoverable. In this context, when probabilistic methods are used, there should be at least a 50% probability that the quantities actually recovered will equal or exceed the sum of estimated Proved + 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^2. On the UKCS each quadrant is further subdivided into 30 blocks;
''recovery factor''	the percentage of the hydrocarbon in place that can be produced;
''reserves''	those quantities of petroleum anticipated to be commercially recoverable by application of development projects to known accumulations from a given date forward under defined conditions. Reserves must further satisfy four criteria: they must be discovered, recoverable, commercial and remaining (as of the evaluation date) based on the development project(s) being applied;
''reservoir''	a subsurface body of rock having sufficient porosity and permeability to store and transmit fluids. A reservoir is a critical component of a complete petroleum system;
''resources''	deposits of naturally occurring hydrocarbons which, if recoverable, include those volumes of hydrocarbons either yet to be found (prospective) or if found the development of which depends upon a number of factors (technical, legal and/or commercial) being resolved (contingent);
"Rotliegendes" or "Rotliegend"	a lithostratigraphic geological unit of early Permian age (beneath the Zechstein and above the Carboniferous) that is found in the subsurface of large areas in western and central Europe;
"STOOIP" or "STOIIP"	stock tank oil originally in place or stock tank oil initially in place;
''scf''	standard cubic feet;
''seismic survey''	a method by which an image of the earth's subsurface is created through the generation of shockwaves and analysis of their reflection from rock strata. Such surveys can be done in two or three-dimensional form;
"TCF" or "tcf"	trillion (10^{12}) standard cubic feet; 1 tcf is approximately equal to 172.4 MMBoe or 23.6 million tonnes of oil equivalent, using a factor of 5.8 BCF per MMBbls;
"UKCS"	United Kingdom Continental Shelf.

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 2018. 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 (2017: £nil).

Political contributions

No payments to political parties have been made during the year (2017: nil).

Future Developments

Following the arrangement of debt funding in late 2015 and early 2016 and further debt funding in both February and September 2018, the Group plans to appraise and develop its existing discoveries, explore its new licence interests and seek new investment opportunities. Full details 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: -

Mark Routh (resigned 31 December 2018)
Martin Ruscoe
Andrew Hay (resigned 13 February 2018)
Andrew Hockey
Rt. Hon. Charles Hendry
Mark Hughes (appointed 18 April 2018)
Fiona MacAulay (appointed 10 July 2018, appointed Chair on 1 January 2019)
Esa Ikaheimonen (appointed 14 March 2019)

Directors' biographies and committee memberships are set out in the Corporate Governance section from pages 23 to 34.

The Group has provided the directors with third party indemnity insurance of £25 million for 2018/19 (2017/18 - £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 2018**	**At 31 December 2017**
Mark Hughes	178,000	0
Martin Ruscoe	144,813	144,813

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

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 126,868,156 issued ordinary shares of 1p each of the Company at 4 April 2019.

Shareholder	Number	%
Hargreaves Lansdown (Nominees) Limited <HLNOM>	16,075,605	12.61
Interactive Investor Services Nominees Limited	13,118,996	10.29
Aurora Nominees Limited	9,593,417	7.53
Hargreaves Lansdown (Nominees) Limited <15942>	9,260,506	7.26
Hargreaves Lansdown (Nominees) Limited <VRA>	7,658,266	6.01
Barclays Direct Investing Nominees Limited	5,431,092	4.26
Remainder	66,343,130	52.04
TOTAL	**127,481,012**	**100%**

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 20 to the financial statements.

Related Parties

Information on related party transactions can be found in Note 22 to the financial statements.

Subsequent Events

Information on subsequent events can be found in Note 24 to the financial statements.

Shareholder Communications

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

Statement of Directors' Responsibilities

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

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

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

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

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain 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
4 April 2019

Independent auditor's report to the members of Independent Oil & 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 2018 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 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 and of the Parent Company's affairs as at 31 December 2018 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 IFRS 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.

Material uncertainty related to going concern

We draw attention to Note 1 of the financial statements concerning the Group and the Parent Company's ability to continue as a going concern. The matters explained in Note 1 relating to the uncertainty around the Group and Parent Company's ability to fund its working capital needs, development plans and loan repayments indicate the existence of a material uncertainty which may cast significant doubt over the Group and Parent Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

We have highlighted going concern as a key audit matter based on our assessment of the significance of the risk and the effect on our audit strategy.

Our audit procedures in response to this key audit matter included:

- Analysing Management's and the Directors' cashflow forecast which forms the basis of their assessment that the going concern basis of preparation remains appropriate for the preparation of the Group and Company financial statements for a period of at least twelve months from the date of approval of these financial statements
- Assessing and sensitising key costs included within the cashflow forecast and where available agreeing these costs to other evidence obtained during the course of our audit work
- Testing the mathematical integrity of the cashflow model in order to ensure the basis of preparation of the model is in line with our expectations
- Obtaining and reviewing documents which support the funding streams included by Management and the Directors in the Group cashflow forecast and confirming the documents to third party documents and public available information
- Obtaining and reviewing correspondence in respect of the terms of the Group's and Company's debt facilities and making an assessment of the ongoing availability of such funding

- Discussing with Management and the Board the Group's strategy to continue to ensure funds are available to the Group to fund its operations and development plans. Confirming statements made to publicly available information and third-party documentation where available
- Reviewing and considering the adequacy of the disclosure within the financial statements relating to the Directors' assessment of the going concern basis of preparation.

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.

Carrying value of non-current assets

The Group's non-current assets represent its most significant assets on the consolidated statement of financial position as at 31 December 2018, comprising of capitalised evaluation & exploration (E&E) and development & production (D&P) expenditure on its Southern North Sea Projects. Please refer to notes 8 and 9.

For both the E&E and D&P assets at each year end Management and the Board are required to assess whether there are any potential impairment triggers which would indicate that the carrying value of a cash generating unit (CGU) may not be recoverable. Given the materiality of the assets in the context of the Group's consolidated statement of financial position and the judgement involved in making this assessment we consider this to be a key audit matter.

Management and the Board concluded that there were no impairment triggers present for any of the CGUs.

How we addressed the key audit matter in our audit

Our specific audit testing in this regard included:

- **Holding meetings with operational management in order to be able to assess the operating activity and development of the assets undertaken in the year**
- **Undertaking a review assessment against the accounting standard requirements of Management's and the Board's conclusion around the number of CGUs identified**
- **Undertaking a review of licence concession agreements and supporting documentation in order to assess compliance with key terms**
- **Reviewing Management's impairment indicators assessment for each CGU against the criteria in the accounting standards in order to determine whether their assessment was complete and in accordance with the requirements of the accounting standard**
- **Performing an independent assessment of financial and non-financial data for potential impairment indicators, and**
- **Reviewing the competent persons reports, as applicable and field development plans, where available for CGUs. In addition, we reviewed key model inputs to data obtained elsewhere during the course of the audit, third party public available information and benchmark data in order to assess whether there are any assumptions in the model which would suggest a potential impairment indicator. Our work was undertaken in order to assess whether there were any potential impairment triggers highlighted in the model which had not previously been identified.**

Our application of materiality

Group materiality FY 2018	Group materiality FY 2017	Basis for materiality
£550,000	£330,000	1.4% of total assets (2017: 1.5% 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.

Materiality for the Parent Company was set at £410,000 (2017: £247,500) and was restricted to 75% of Group materiality (2017: 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% (2017: 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 £10,000.

Whilst materiality for the financial statements as a whole was £550,000 each significant component of the Group was audited to a lower level of materiality ranging from £113,000 to £410,000 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 annual report 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.

Other information (continued)

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; however, 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. 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.

BDO LLP

Anne Sayers (Senior Statutory Auditor)

For and on behalf of BDO LLP, Statutory Auditor
London

4 April 2019

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

Consolidated Statement of Comprehensive Income

	Notes	2018 £000	2017 £000
Administration expenses		(974)	(700)
Impairment of oil and gas properties	8	(184)	(119)
Project, pre-licence and exploration expenses		(922)	(430)
Net loss on settlement of liabilities	3	(106)	(1)
Foreign exchange (loss)/gain		(334)	333
Operating loss	3	**(2,520)**	**(917)**
Finance expense	5	(3,124)	(1,834)
Loss for the year before taxation		**(5,644)**	**(2,751)**
Taxation	6	**-**	**-**
Loss and total comprehensive loss for the year attributable to equity holders of the parent	7	**(5,644)**	**(2,751)**
Loss for the year per ordinary share – basic	7	**4.6p**	**2.5p**
Loss for the year per ordinary share – diluted	7	**4.6p**	**2.5p**

The loss for the year arose from continuing operations.

The Notes on pages 52 to 89 form part of these financial statements.

Consolidated and Company Statements of Changes in Equity

	Share capital	Share premium	Share-based payment reserve	Accumulated losses	Total equity
Group:	**£000**	**£000**	**£000**	**£000**	**£000**
At 1 January 2017	1,093	20,460	2,885	(28,738)	(4,300)
Loss for the year	-	-	-	(2,751)	(2,751)
Total comprehensive loss attributable to owners of the parent	-	-	-	(2,751)	(2,751)
Settle creditors via issue of shares	105	1,877	-	-	1,982
Lapse of warrants	-	-	(10)	10	-
Issue of share options	-	-	298	-	298
Exercise of share options	5	-	(74)	74	5
At 31 December 2017	**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
At 31 December 2018	**1,269**	**22,337**	**6,308**	**(35,690)**	**(5,776)**
Company:					
At 1 January 2017	1,093	20,460	2,885	(5,172)	19,266
Profit for the year	-	-	-	1,176	1,176
Total comprehensive income attributable to owners of the parent	-	-	-	1,176	1,176
Settle creditors via issue of shares	105	1,877	-	-	1,982
Lapse of warrants	-	-	(10)	10	-
Issue of share options	-	-	298	-	298
Exercise of share options	5	-	(74)	74	5
At 31 December 2017	**1,203**	**22,337**	**3,099**	**(3,912)**	**22,727**
Loss for the year	-	-	-	(2,604)	(2,604)
Total comprehensive loss 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
At 31 December 2018	**1,269**	**22,337**	**6,308**	**(5,157)**	**24,757**

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 52 to 89 form part of these financial statements.

Consolidated Statement of Financial Position

	Notes	2018 £000	2017 £000
Non-current assets			
Intangible assets: exploration & evaluation	8	2,352	185
Intangible assets: other	8	3	1
Property, plant and equipment: development & production	9	41,527	21,316
Property, plant and equipment: other	9	41	20
		43,923	**21,522**
Current assets			
Other receivables and prepayments	13	672	968
Cash and cash equivalents	17	702	145
		1,374	**1,113**
Total assets		**45,297**	**22,635**
Current liabilities			
Loans	14	(6,934)	-
Trade and other payables	14	(11,137)	(7,038)
		(18,071)	**(7,038)**
Non-current liabilities			
Loans	15	(22,884)	(12,394)
Provisions	15	(10,118)	(7,969)
		(33,002)	**(20,363)**
Total liabilities		**(51,073)**	**(27,401)**
NET LIABILITIES		**(5,776)**	**(4,766)**
Capital and reserves			
Share capital	16	1,269	1,203
Share premium	16	22,337	22,337
Share-based payment reserve		6,308	3,099
Accumulated losses		(35,690)	(31,405)
		(5,776)	**(4,766)**

The financial statements were approved and authorised for issue by the Board of Directors on 4 April 2019 and were signed on its behalf by: -

Andrew Hockey
Chief Executive Officer
4 April 2019

The Notes on pages 52 to 89 form part of these financial statements.

Company Statement of Financial Position

Company Number: 07434350	Notes	2018 £000	2017 £000
Non-current assets			
Intangible assets	8	3	1
Property, plant and equipment	9	41	20
Investments	11	17,197	17,416
Amounts due from subsidiaries	11	29,526	12,280
		46,767	**29,717**
Current assets			
Other receivables and prepayments	13	672	767
Cash and cash equivalents	17	702	145
		1,374	**912**
Total assets		**48,141**	**30,629**
Current liabilities			
Trade and other payables	14	**(8,071)**	**(6,643)**
Non-current liabilities			
Loans	15	(14,054)	-
Provisions	15	(1,259)	(1,259)
		(15,313)	**(1,259)**
Total liabilities		**(23,384)**	**(7,902)**
NET ASSETS		**24,757**	**22,727**
Capital and reserves			
Share capital	16	1,269	1,203
Share premium	16	22,337	22,337
Share-based payment reserve		6,308	3,099
Accumulated losses		(5,157)	(3,912)
		24,757	**22,727**

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 £2,604k (2017: profit £1,176k).

The financial statements were approved and authorised for issue by the Board of Directors on 4 April 2019 and were signed on its behalf by: -

Andrew Hockey
Chief Executive Officer
4 April 2019

The Notes on pages 52 to 89 form part of these financial statements.

Consolidated Cash Flow Statement

	Notes	2018 £000	2017 £000
Loss for the year	7	(5,644)	(2,751)
Depreciation, depletion and amortisation		9	3
Exploration asset write off	8	184	119
Loss on settlement of liabilities	3	106	1
Share based payments		187	174
Movement in trade and other receivables		(812)	(278)
Movement in trade and other payables		(415)	178
Interest received		(2)	-
Finance fees		3,206	1,834
Foreign exchange differences		142	(333)
Net cash used in operating activities		**(3,039)**	**(1,053)**
Investing activities			
Purchase of intangible and tangible assets		(14,327)	(2,648)
Interest received		2	-
Acquisitions	10	-	(750)
Initial Thames Pipeline decommissioning security		(500)	-
Net cash used in investing activities		**(14,825)**	**(3,398)**
Financing activities			
Proceeds from issue of equity instruments of the Group		67	8
Cash received from loans	23	18,787	6,372
Amounts repaid on loans	23	-	(2,019)
Finance fees paid		(433)	(12)
Net cash generated from financing activities		**18,421**	**4,349**
Net increase / (decrease) in cash and cash equivalents		557	(102)
Cash and cash equivalents at the beginning of the year		145	247
Cash and cash equivalents at end of year	17	**702**	**145**

The Notes on pages 52 to 89 form part of these financial statements.

Company Cash Flow Statement

	Notes	2018 £000	2017 £000
(Loss)/profit for the year	18	(2,604)	1,176
Depreciation charges		8	3
Investment write back	11	-	(1,870)
Loss on settlement of liabilities	3	106	1
Share based payments		138	96
Movement in trade and other receivables		(312)	(284)
Movement in trade and other payables		(415)	214
Inter-company service charge uplift		(206)	(105)
Interest received		(2)	-
Finance fees		1,322	166
Foreign exchange differences		142	(200)
Net cash used in operating activities		**(1,823)**	**(803)**
Investing activities			
Purchase of intangible and tangible assets		(573)	(371)
Loans to subsidiary undertakings		(15,470)	(2,539)
Interest received		2	-
Investments in subsidiary undertakings	10	-	(750)
Net cash used in investing activities		**(16,041)**	**(3,660)**
Financing activities			
Proceeds from issue of equity instruments of the Company		67	8
Cash received from loans	23	18,787	6,372
Amounts repaid on loans	23	-	(2,019)
Finance fees paid		(433)	-
Net cash generated from financing activities		**18,421**	**4,361**
Net (decrease) / increase in cash and cash equivalents		557	(102)
Cash and cash equivalents at the beginning of the year		145	247
Cash and cash equivalents at end of year	17	**702**	**145**

The Notes on pages 52 to 89 form part of these 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 2018 were authorised for issue by the Board of Directors on 28 March 2019 and the balance sheets were signed on the Board's behalf by the CEO, Andrew Hockey.

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 62 and 63.

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 2020 having regard to its current financial position and operational objectives. On 1 April 2019 the Group announced it had raised £16.6m (gross) of equity via the placing of 165,795,050 shares for 10p per ordinary share and had simultaneously renegotiated the term of £7.1m of LOG debt whereby repayments previously scheduled for 2019, which are now rescheduled to 1 January 2020 at the earliest. The Group have continued to draw down against the LOG £15m facility having taken a further drawdown of £3.925 million in January 2019. The Group have received confirmation from the LOG Administrators that the remaining £3.925 million available to the Group under the £15m LOG facility will remain available to the Group under the original terms of the facility, and as publicly noted by the LOG Administrators, they will continue to support the Group in its endeavours to develop its dual Hub Strategy in order to generate shareholder return.

Notwithstanding this announcement the Group's cashflow forecast to September 2020 indicates that the Group will need additional funding to enable it to progress with its planned development activities and to meet its liabilities (working capital and LOG scheduled debt repayments) as they fall due in the period from 1 January 2020. The Board; however, is satisfied that the Group and Company will have sufficient financial resources available to meet its commitments based on the likelihood of the Group being able to secure additional funding from existing stakeholders, the farmout of existing assets and/or funding from new investors. The Consolidated Statement of Financial Position at 31 December 2018 details a net liability position of the Group of £5.8 million; however, the funding and LOG restructuring, pursuant to the announcement on 1 April 2019, will both provide increased equity and the reduction of debt on the balance sheet, Management identify this trend as an important steer to deliver its dual Hub Strategy and the development of its associated oil and gas asset portfolio. Accordingly, the Board continue to adopt the going concern basis for the preparation of these financial statements.

However, at the date of approval of these financial statements there are no legally binding agreements in place relating to future fundraising. Therefore, there can be no certainty that additional funds will be forthcoming which indicates the existence of a material uncertainty which may cast significant doubt about the Group and Company's ability to continue as a going concern and therefore it may be unable to realise its assets and discharge its liabilities in the normal course of business. The financial statements do not include the adjustments that would result if the Group and Company was unable to continue as a going concern.

1 Accounting policies (continued)

New and revised accounting standards

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

The accounting policies adopted are consistent with those of the previous financial year. 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 16	Leases	1 January 2019
IFRIC 23	Uncertainty over Income Tax Treatments	1 January 2019
IFRS 9	Prepayment Features with Negative Compensation (Amendments)	1 January 2019
IAS 28	Long-term Interest in Associates and Joint Ventures (Amendments)	1 January 2019
IFRS 3, IFRS 11, IAS 12, IAS 23	Annual Improvements to IFRS Standards 2015-2017 Cycle	1 January 2019
IAS 19	Plan Amendment, Curtailment or Settlement (Amendments)	1 January 2019
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

IFRS 16 "Leases" - the Board assesses that the net impact to the Income Statement in 2019 and future years will be dependent on those prevailing lease contracts and other such similar oil and gas development contractual agreements which may have been executed prior to 31 December 2019. The Board is uncertain as to the length of time such contracts may cover; however, if such contracts cover any continuous period of greater than one year, then such contracts will be subject to IFRS16. Such contracts will result in both assets and liabilities on the Balance Sheet to increase by corresponding amounts, which, as at 31 December 2018 would have been immaterial. At 31 December 2018 the Group was not subject to any long-term lease contracts, other than for the rental of its office premises at 10 Arthur Street, London EC4R 9AY and the Crown Estate lease where the Thames Pipeline crosses the foreshore at Bacton. The Company has not adopted this standard early and has not made any IFRS16 provision, for its office lease or Crown Estate agreements, or otherwise, in the financial statements for the year ending 31 December 2018.

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

1 Accounting policies (continued)

New significant standards and amendments effective 1 January 2018

IFRS 9 Financial Instruments

IFRS 9, Financial Instruments introduced new requirements for the recognition, classification and measurement of financial assets and liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting. IFRS 9 replaced the multiple classification and measurement models for financial assets and financial liabilities that existed under IAS 39 Financial Instruments, and the basis on which financial assets are measured will determine their classification as either, at amortised cost, fair value through profit and loss, or fair value through other comprehensive income. The Group's principal financial assets comprise cash and other receivables. All these financial assets continue to be classified and measured at amortised cost. The Group's principal financial liabilities comprise trade and other payables and loans. All these financial liabilities continue to be classified and measured at amortised cost.

The adoption of IFRS 9 has changed the Group's accounting for impairment losses for financial assets by replacing IAS 39's incurred loss approach with a forward-looking expected credit loss approach. IFRS 9 requires the Group to measure and recognise expected credit losses on all applicable financial assets.

The Company did not choose to adopt IFRS 9 early and have chosen not to apply the standard retrospectively on the basis of the impact not being significant in terms of impairment and or additional expected credit losses ('ECL's) recognised with regard to intercompany balances. The Company has assessed the resulting impact on the financial statements and there was no material quantitative impact on the financial statements. There are a number of additional disclosures that have been added to the financial statements.

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.

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 9 and Note 10. 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 proceeds are credited to the Statement of Comprehensive Income.

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

1 Accounting policies (continued)

Taxation (continued)

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, 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 and thus are expected to continue indefinitely.

Operating Leases

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

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.

<u>Classification and measurement of financial assets</u>

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 costs 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)

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.

<u>Impairment of financial assets</u>

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.

1 Accounting policies (continued)

Financial instruments (continued)

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 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 LOG loans are securitised by guarantees over the assets of IOG North Sea Limited, IOG UK Limited and IOG Infrastructure Limited. These guarantees are considered to be insurance contracts and accounted for in accordance with the provisions of IFRS 4.

1 Accounting policies (continued)

Convertible loan notes

Upon issue, convertible notes are separated into the equity and liability components at the date of issue. 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.

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') 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 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 volatility; expected dividends; risk-free rate of interest; and patterns of exercise of the plan participants. Where the terms and conditions of options are modified before they vest, the increase in the fair value of the options, measured immediately before and after the modification, is also charged to the Statement of Comprehensive Income over the remaining vesting period. No expense is recognised for options that do not ultimately vest except where vesting is only conditional upon a market condition.

Where the Group renegotiates the terms of its debt, with the result that the liability is extinguished by the issuing of its own equity instruments to the creditor (referred to as a 'debt for equity swap'), the equity instruments issued to settle a liability represent 'consideration paid'. In accordance with IFRIC 19 '*Extinguishing Financial Liabilities with Equity Instruments'* the Group therefore recognises a gain or loss in profit or loss when a liability is settled through the issuance of the Group's own equity instruments. The amount of the gain or loss recognised in profit or loss is determined as the difference between the carrying value of the financial liability and the fair value of the equity instruments issued. The fair value of the equity instruments issued is used to measure the gain or loss on the settlement of the existing financial liability.

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.

Loss/earnings per share

Loss/earnings per share is calculated as loss/profit 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 8 and 9. The carrying value of related investments in the Company Statement of Financial Position is disclosed in Note 11. 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 value-in-use calculations

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

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

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.

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.

1 Accounting policies (continued)

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.

Investments (Company)

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

Decommissioning

At 31 December 2018, the Group has obligations in respect of decommissioning a suspended well on the Vulcan Satellites D&P asset, together with the acquired offshore Thames Pipeline.

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 2018 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.

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.

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 North Sea.

3 Operating loss

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

	2018 £000	2017 £000
Fees payable to the Company's auditor:		
for the audit of the Company's and Group's financial statements	58	50
Depreciation, depletion and amortisation	21	8
Project, pre-licence and exploration expenses	922	430
Impairment of oil and gas properties	184	119
Personnel costs – direct expenses	2,115	1,306
Personnel costs - share-based payments	378	298
Net loss on settlement of liabilities	106	1
Foreign exchange loss/(gain)	334	(333)

Of those charges above for both depreciation and personnel costs, respective sums of £12k (2017: £5k) and £1,268k (2017: £869k) were reallocated and capitalised to oil and gas / pipeline properties.

4 Personnel costs and directors' remuneration

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

	2018 Number	2017 Number
Management / technical / operations	18	17
of which: Directors	5	5

Personnel costs Group and Company	**£000**	£000
Wages, salaries, fees and other direct costs	1,882	1,229
Social security costs	232	77
Pension costs	1	-
Share-based payments	378	298
	2,493	1,604

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

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

Directors' remuneration	**Salary**	**Share-based payment**	**2018 Total**	Salary	Share-based payment	2017 Total
	£000	**£000**	**£000**	£000	£000	£000
Mark Routh[1]	**141**	**52**	**193**	149	79	228
Fiona MacAulay[2]	**17**	**-**	**17**	-	-	-
Mark Hughes[3]	**90**	**52**	**142**	-	-	-
David Peattie[4]	**-**	**-**	**-**	-	35	35
Martin Ruscoe	**15**	**15**	**30**	15	20	35
Andrew Hay[5]	**11**	**8**	**19**	18	23	41
Peter Young[6]	**-**	**-**	**-**	38	-	38
Hywel John[7]	**-**	**-**	**-**	69	13	82
Andrew Hockey	**179**	**118**	**297**	101	19	120
Charles Hendry	**15**	**15**	**30**	12	7	19
	468	**260**	**728**	402	196	**598**
Other key management personnel	**143**	**79**	**222**	97	30	**127**
Total key management personnel	**611**	**339**	**950**	499	226	**725**

[1] Mark Routh resigned on 31 December 2018;
[2] Fiona MacAulay was appointed on 10 July 2018;
[3] Mark Hughes was appointed on 18 April 2018;
[4] David Peattie resigned on 21 March 2017;
[5] Andrew Hay resigned on 13 February 2018;
[6] Peter Young resigned on 21 March 2017;
[7] Hywel John was appointed on 21 March 2017, resigned on 13 September 2017

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 both LTIPs and those in lieu of cash salary and/or director fees paid.

In addition to the above, an amount of £470 was paid in employer pension contributions for Mark Hughes.

4 Personnel costs and directors' remuneration (continued)

Social security costs for the year for key management personnel were £134k (2017 - £53k).

For the current directors at 31 December 2018, the service agreements for Mark Hughes, Andrew Hockey, Martin Ruscoe and Charles Hendry provide that only a proportion of the full contractual amount will be paid in cash with the balance to be settled in share options granted.

The proportions paid in 2018 for all directors were 100% for Fiona MacAulay, 75% for each of Mark Routh, Andrew Hockey, Mark Hughes and other key management personnel and 50% for Martin Ruscoe, Andrew Hay and Charles Hendry. For each six-month interval, ending on 28 (or 29) February and 31 August respectively, the Company settles the difference between the reduced rate and the full rate through the granting of options over ordinary shares of the Company at the volume-weighted average share price over the period to which they relate. Amounts of salary and/or fees outstanding at 31 December 2018 to which these terms relate totalled £76k (31 December 2017 – £60k) for directors and key management personnel and £11k (2017 - £9k) for other personnel. These were subsequently settled in share options, issued on 1 March 2019.

Directors' interests in options on 1p ordinary shares of the Company at 31 December 2018 were as follows:

	Granted	Total 31 Dec 2017	Awarded / (Exercised) in 2018	Total 31 Dec 2018	Exercise price	Expiry date
Andrew Hockey	1 Sep 2017	110,800	-	110,800	1p	31 Aug 2022
	1 Mar 2018	-	102,537	102,537	1p	28 Feb 2023
	1 Mar 2018	-	1,600,000	1,600,000	20p	28 Feb 2028
	1 Sep 2018	-	128,700	128,700	1p	31 Aug 2023
Mark Hughes	27 Jul 2018	-	1,000,000	1,000,000	35p	27 July 2028
	1 Sep 2018	-	62,417	62,417	1p	31 Aug 2023
Martin Ruscoe[1]	1 Sep 2017	44,699	-	44,699	1p	31 Aug 2022
	1 Mar 2018	-	34,179	34,179	1p	28 Feb 2023
	1 Sep 2018	-	30,888	30,888	1p	31 Aug 2023
Charles Hendry	1 Sep 2017	39,745	-	39,745	1p	31 Aug 2022
	1 Mar 2018	-	34,179	34,179	1p	28 Feb 2023
	1 Sep 2018	-	30,888	30,888	1p	31 Aug 2023

[1] Options granted to South Riding Consultancy Limited, a company in which Martin Ruscoe is a majority shareholder and a director.

5 Finance expense

	2018	2017
	£000	£000
Interest on loans	**1,493**	1,092
Interest on deferred payment creditors	**373**	12
Amortisation of loan finance charges	**617**	411
Current year loan finance charges	**49**	44
Current year finance charges on deferred payment creditors	**-**	122
Unwinding of deferred consideration provisions	**592**	153
	3,124	1,834

6 Taxation

a) Current taxation

There was no tax charge during the year as the Group loss was not chargeable to corporation tax. Applicable expenditures to-date will be accumulated for offset against future tax charges.

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

	2018	2017
	£000	£000
Loss for the year	(5,644)	(2,751)
Income tax expense	-	-
Loss before income taxes	(5,644)	(2,751)
Expected tax credit based on the standard rate of United Kingdom corporation tax at the domestic rate of 40% (2017: 40%)	(2,258)	(1,100)
Difference in tax rates	826	(244)
Expenses / (income) not deductible for tax purposes	137	(220)
Income not taxable/allowable	(2,617)	(3,107)
Unrecognised taxable losses carried forward	3,912	4,671
Total tax expense	-	-

b) Deferred taxation

Due to the nature of the Group's E&P activities there is a long lead time in either developing or otherwise realising E&P 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 £80.72 million (2017: £57.72 million). Included within this figure are accelerated capital allowances of £32.6 million (2017: £18.1 million).

The Group has not recognised a deferred tax asset at 31 December 2018 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.

7 Loss per share

	2018	2017
	£000	£000
Loss for the year attributable to shareholders	**(5,644)**	(2,751)
Weighted average number of ordinary shares – basic and diluted	**123,581,926**	109,538,499
Loss per share in pence – basic and diluted	**4.6p**	2.5p

Diluted loss per share is calculated based upon the weighted average number of ordinary shares plus the weighted average number of ordinary shares that would be issued upon conversion of potentially dilutive share options and warrants into ordinary shares. As the result for 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.

8 Intangible assets

Group

	Exploration & evaluation assets	**Company & IT software assets**	**Total**	Exploration & evaluation assets	Company & IT software assets	Total
	2018	**2018**	**2018**	2017	2017	2017
	£000	**£000**	**£000**	£000	£000	£000
At cost						
At beginning of the year	22,402	3	22,405	27,923	3	27,926
Additions	2,351	4	2,355	1,484	-	1,484
Disposals	(34)	-	(34)	-	-	-
Reclassified as Development & Production assets	-	-	-	(7,005)	-	(7,005)
At end of the year	24,719	7	24,726	22,402	3	22,405
Impairments and write-downs						
At beginning of the year	(22,217)	(2)	(22,219)	(22,098)	(1)	(22,099)
DD&A	-	(2)	(2)	-	(1)	(1)
Net Impairment	(184)	-	(184)	(119)	-	(119)
Disposals	34	-	34	-	-	-
At end of the year	(22,367)	(4)	(22,371)	(22,217)	(2)	(22,219)
Net book value						
At 31 December 2018	**2,352**	**3**	**2,355**			
A t 1 January 2018	185	1	186			
At 1 January 2017	5,825	2	5,827			

8 Intangible assets (continued)

E&E assets at 31 December 2018 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 the year reflecting those post 2016 drilling expenses and licence administration costs incurred on the previously impaired Skipper asset, Licence P1609. Licence P2122 which had been relinquished in 2017, was formally released from the balance sheet in 2018.

9 Property, plant and equipment

Group	**D&P assets**	**Pipeline assets**	**Company & admin assets**	**Total**	D&P assets	Company & admin assets	Total
	2018	**2018**	**2018**	**2018**	2017	2017	2017
	£000	**£000**	**£000**	**£000**	£000	£000	£000
At cost							
At beginning of the year	21,316	-	34	21,350	7,506	30	7,536
Additions	9,676	10,447	40	20,163	825	4	829
Reclassified from current assets	200	-	-	200	-	-	-
Initial Thames Pipeline decommissioning security	-	500	-	500	-	-	-
Reclassified from E&E assets (see Note 8)	-	-	-	-	7,005	-	7,005
Blythe asset acquisition (Note 10)	(392)	-	-	(392)	3,078	-	3,078
Vulcan Satellites asset acquisition (Note 10)	(220)	-	-	(220)	2,902	-	2,902
At end of the year	30,580	10,947	74	41,601	21,316	34	21,350
Accumulated depreciation							
At beginning of the year	-	-	(14)	(14)	-	(6)	(6)
DD&A	-	-	(19)	(19)	-	(8)	(8)
At end of the year	-	-	(33)	(33)	-	(14)	(14)
Net book value							
At 31 December 2018	**30,580**	**10,947**	**41**	**41,568**			
At 1 January 2018	21,316	-	20	21,336			
At 1 January 2017	7,506	-	24	7,530			

All development and production assets are awaiting approval from the OGA expected 31 March 2019.

Amounts paid as decommission security guarantees in respect of both the Elland P039 Licence suspended well, £200k (paid on acquisition to the prior owners of the Vulcan Satellites in October 2016 and previously held as a current asset) and the Initial Thames Pipeline Decommissioning Security, £500k (paid on completion of the Thames Pipeline acquisition in April 2018) have been classified as fixed assets at 31 December 2018.

10 Asset Acquisitions

Vulcan Satellites

On 28 October 2016, the Company announced the completion of the acquisition of Oyster Petroleum Limited, from Verus Petroleum, comprising the Vulcan Satellites. This has been accounted for as an asset acquisition given the status of the projects held by Oyster Petroleum on the acquisition date. Under the terms of the agreement the Company paid £1 million, plus interim cash adjustments payable at completion. In accordance with the Vulcan Satellites purchase agreement a further £0.75 million was payable nine months after completion and was subsequently paid on 1 August 2017. Further payments of £3.25 million are payable upon achievement of certain further milestones which are;

- £1.75 million on FDP approval and
- £1.50 million on first gas production.

After further work on the project during 2017 and 2018, the achievement of future milestones, which are now considered more certain than not and as the transaction was considered an asset acquisition, these future payments have therefore been recognised in the financial statements and recorded within the cost base of the Vulcan Satellites asset. See Note 15 for further details.

	2018 £000	2017 £000
At 1 January	2,902	-
Milestone payments recognised within D&P assets	-	2,902 (Note 9)
Discount adjustment on future milestone payments	(220) (Note 9)	-
At 31 December	**2,682**	2,902

Blythe

On 21 June 2016, the Company announced the completion of the additional 50% operated stake in the Blythe field, thereby increasing its interest to 100%. The consideration comprised an upfront payment of £1.50 million, plus interim cash adjustments payable at completion with deferred consideration of a further USD 5.00 million to be paid at first gas production.

Given the USD 5.00 million is dependent on achievement of a future milestone event, which is now considered more certain than not, and the transaction is considered an asset acquisition, this amount of £3,078k has now been recognised in the financial statements and recorded within the cost base of the Blythe asset. See Note 15 for further details.

	2018 £000	2017 £000
At 1 January	3,078	-
Milestone payments recognised within D&P assets	-	3,078 (Note 9)
Discount adjustment on future milestone payments	(392) (Note 9)	-
At 31 December	**2,686**	3,078

11 Investments

Company	Shares in Group companies	Loans to Group companies	Total
	£000	£000	£000
At cost			
At 1 January 2017	14,514	11,995	26,509
Additions	2,902	285	3,187
At 31 December 2017	17,416	12,280	29,696
Additions	(219)	17,246	
At 31 December 2018	**17,197**	**29,526**	
Impairment			
At 1 January 2017	-	(1,870)	(1,870)
Impairment reversal	-	1,870	1,870
At 31 December 2017	**-**	**-**	**-**
Impairment	-	-	-
At 31 December 2018	**-**	**-**	**-**
Net book value			
At 31 December 2018	**17,197**	**29,526**	**46,723**
At 1 January 2018	17,416	12,280	29,696
At 1 January 2017	14,514	10,125	24,639

The Company has undertaken not to seek repayment of loans from other Group subsidiary companies until each subsidiary has sufficient funds to make such payments however they are technically due on demand. These loans are non-interest bearing.

The impairment of £1.87 million taken on loans to Group companies in prior years was reversed in 2017.

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

Directly held	Country of incorporation	Area of operation	%
IOG Infrastructure Limited	United Kingdom	United Kingdom	100
IOG North Sea Limited	United Kingdom	United Kingdom	100
IOG UK Limited	United Kingdom	United Kingdom	100
Avalonia Energy Limited (dormant)	United Kingdom	United Kingdom	100
Avalonia Goddard Limited (dormant)	United Kingdom	United Kingdom	100
Avalonia Abbeydale 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 three dormant companies were incorporated in 2H18 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.

12 Interests in production licences

All ten Group UK Offshore Production Licences, held at 31 December 2018, are owned 100% by either IOG North Sea Limited or IOG UK Limited. The Thames Pipeline P370 asset is owned 100% by IOG Infrastructure Limited.

13 Other receivables and prepayments

	2018	2017
	£000	£000
Group		
VAT recoverable	**311**	285
Prepayments	**361**	465
Debtors	**-**	18
Decommissioning guarantees (Note 9)	**-**	200
	672	968
Company		
VAT recoverable	**311**	285
Prepayments	**361**	465
Debtors	**-**	17
	672	767

Included in 2018 Prepayments (both Group and Company) are financing costs of £291k (2017: £nil) incurred, cumulative at 31 December 2018, on progressing further refinancing for the Company and Group. These will be either transferred to equity (share capital issue costs), set off against debt, or expensed to the Statement of Comprehensive Income, dependent upon the outcome of such refinancing. Included in 2017 Prepayments (both Group and Company) is capital of £408k representing expenditure incurred, cumulative to date at 31 December 2017, on progressing the Thames Pipeline deal acquisition and completion. This was transferred to PPE within the Group on acquisition completion of the Thames Pipeline facility in April 2018.

14 Current liabilities

	2018	2017
	£000	£000
Group		
Loans	**6,934**	-
Trade payables	**5,961**	4,827
Accruals	**3,467**	569
Contingent consideration payable (see Note 15)	**1,709**	1,642
	18,071	7,038
Company		
Trade payables	**5,961**	4,827
Accruals	**401**	174
Contingent consideration payable (see Note 15)	**1,709**	1,642
	8,071	6,643

Accruals for the Group have increased significantly in the period, due to the value of SNS Project work undertaken for the year to 31 December 2018, which remains unbilled by vendors and suppliers as at 31 December 2018.

14 Current liabilities (continued)

Of the Group's current liabilities at 31 December 2018:

- £6.93 million (2017: £nil) was owing to LOG consisting £5.54 million principal and £1.39 million interest. These loans accrue interest at LIBOR+9%. See also below Note 15;
- Trade payables consist Skipper deferred creditors £2.22 million (2017: £4.46 million), SNS Project creditors £3.42 million (2017: £0.18 million) and other creditors £0.32 million (2017: £0.19 million);
- Accrued expenditures consist SNS Projects £3.07 million (2017: £0.42 million) and other accruals £0.40 million (2017: £0.15 million); and
- Verus Petroleum deferred consideration payable £1.71 million (2017: £1.64 million).

15 Non-current liabilities

	2018	2017
	£000	£000
Group		
Long-term loans	**22,884**	12,394
Contingent consideration payable	**4,478**	4,371
Decommissioning provision	**5,640**	3,598
	33,002	**20,363**
Company		
Long-term loans	**14,054**	-
Contingent consideration payable	**1,259**	1,259
	15,313	1,259

Long-term loans:

The amounts drawn on LOG loans at 31 December 2018 were as follows:

Loan Facility	Entity	Effective Date	Principal	Interest
£2.75 million facility[1]	IOG North Sea Limited	7 December 2015	£2.75 million	£0.66 million
£0.80 million facility[1]	IOG North Sea Limited	11 December 2015	£0.80 million	£0.19 million
£10.00 million facility[2]	IOG North Sea Limited	5 February 2016	£10.00 million	£1.67 million
£10.00 million facility[2]	IOG plc	21 February 2018	£10.00 million	£0.67 million
£15.00 million facility[1]	IOG plc	13 September 2018	£7.15 million	£0.14 million

[1] Warrants were issued to LOG in respect of these facilities. The valuation of these warrants is detailed in Note 16 and is amortised over the life of the facilities.

[2] Both these 2016 and 2018 £10.00 million loans are convertible into ordinary shares of 1p in the Company at 8p and 19p respectively.

The balance on the Group's long-term loans at 31 December 2018 is represented by drawings of £30.70 million (2017: £11.91 million) plus accrued interest of £3.33 million (2017: £1.09 million) on these LOG facilities, less the non-amortised value £4.21 million (2017: £0.61 million) of loan finance (which includes both the non-amortised amount of warrants as detailed above and prepaid financing costs), less the £6.93 million included in current liabilities (2017: £nil). Interest accrued during the year was £2.24 million (2017: £0.88 million) of which £0.75 million (2017: £0.02 million) has been capitalised to SNS Projects

The interest rate on all LOG loans is LIBOR+9% for the duration of the term other than the September 2018 £15.00 million facility where the rate increases to LIBOR+11% from 1 December 2018. These interest rates are determined as market debt rates and hence no equity element has been recognised for either of the £10.00 million convertible loans.

The LOG loans are securitised by guarantees over the assets of IOG North Sea Limited, IOG UK Limited and IOG Infrastructure Limited. These guarantees are considered to be insurance contracts and accounted for in accordance with the provisions of IFRS 4.

15 Non-current liabilities (continued)

Contingent consideration payable:

As indicated in Note 10, 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 31 March 2019, and first gas (Blythe and Vulcans) being non-current liabilities, see below.

As disclosed in the 2017 financial statements, these milestone events triggering deferred consideration payments are now considered to be more certain than not and a non-current amount of £4.37 million was 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, are now anticipated to be 31 October 2020 (Vulcans) and 31 January 2021 (Blythe).

The movements in the year are as follows:

	2018	2017
	£000	£000
at 1 January	6,013	-
Additional Blythe consideration	-	3,078
Additional Vulcans consideration	-	2,901
Prospective adjustment for change in payment dates (Note 10)	(612)	-
Foreign exchange	194	(118)
Unwinding of discount	592	152
at 31 December	**6,187**	6,013

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

	2018	2017
	£000	£000
Current contingent consideration payable (FDP approval)	1,709	1,642
Non-Current contingent consideration payable (first gas)	4,478	4,371
	6,187	6,013

15 Non-current liabilities (continued)

Decommissioning provision:

	2018	2017
	£000	£000
at 1 January	3,598	3,598
additions: Thames Pipeline	2,042	-
At 31 December	**5,640**	3,598

The Group has regulatory and financial obligations in respect of decommissioning a suspended well on the Elland Licence P039 - £3.60 million (2017: £3.60 million) and decommissioning the Thames Pipeline - £2.04 million (2017: £nil).

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. As per Note 1, the current estimate of £3.60 million is based upon a recent technical valuation.

The £2.04 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.

16 Equity share capital

	Number	Share capital £000	Share premium £000	Total £000
Authorised, allotted, issued and fully paid				
At 1 January 2017				
- Ordinary shares of 1p each	109,268,163	1,093	20,460	21,553
Equity issued	462,206	5	-	5
Creditor settlement via issue of shares	10,479,260	105	1,877	1,982
At 31 December 2017				
- 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**

2017:

During 2017, the Company issued 462,206 ordinary shares at a subscription price of 1p from the exercise of management and other personnel share options.

On 29 December 2018, the Company issued 10,479,260 ordinary shares in lieu of Skipper creditor settlement cash payments to both GE Oil & Gas UK Limited and AGR Well Management Limited.

2018:

During 2018, the Company issued 6,658,527 ordinary shares at a subscription price of 1p from the exercise of management and other personnel share options.

16 Equity share capital (continued)

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
1 January 2017	**11,029,143**	**1p**		
Salary/fee sacrifice options	905,099	1p	1 Mar 2018	28 Feb 2023
Salary/fee sacrifice options	5,718	1p	28 Jun 2017	28 Jun 2022
Salary/fee sacrifice options	845,912	1p	1 Sep 2017	31 Aug 2022
Options exercised	(462,206)			
31 December 2017	**12,323,666**	**1p**		
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)			
31 December 2018	**10,282,725**	**9.11p**		

Of the remaining personnel options, 11,029,143 outstanding at 1 January 2017, 308,860 were exercised during 2017. Of those personnel options granted during 2017, 153,346 were exercised during 2017. Total personnel options exercised in 2017 is thus 462,206.

Of the remaining staff options, 12,323,66, outstanding at 31 December 2017, 6,652,717 were exercised during 2018. Of those staff options granted during 2018, 5,810 were exercised during 2018. Total personnel options exercised in 2018 is thus 6,658,527.

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 2018 were issued at an exercise price of 1p per share and carry no additional performance conditions. All LTIP options outstanding at 31 December 2018 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 10,282,725 options outstanding at 31 December 2018 (2017 – 12,323,666) was 4.91 years at that date (2017 – 2.14 years) of which 6,682,725 were exercisable at 31 December 2018 (2017 – all 12,323,666 options were exercisable at 31 December 2017).

The weighted average exercise price of the options remaining was 9.11p at 31 December 2018 (2017 – 1p).

A further 612,856 options were exercised during March 2019; however, no further share options have been issued during 2019 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 2018 is calculated as £236k (2017 - £298k) and this has been charged to the Statement of Comprehensive Income. The exercise price of such awards was determined as 1p (2017 – 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 2018 is calculated as £633k (2017 - £nil), of which £141k (2017 - £nil) 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.

Further details for directors are provided in Note 4.

16 Equity share capital (continued)

The Company has granted warrants in the current year as follows (2017: lapsed warrants):

	Number	Price	Date of Grant	Expiry
1 January 2017	**14,103,397**	**10.48p**		
Lapsed – Darwin Strategic	(326,087)			
31 December 2017	**13,777,310**	**9.64p**		
London Oil & Gas Ltd	20,000,000	32.18p	13 Sep 2018	12 Sep 2023
31 December 2018	**33,777,310**	**22.98p**		

326,087 warrants awarded to Darwin Strategic in June 2014 expired and lapsed on 4 September 2017. Accordingly, the fair value of these awards was transferred from the Share-based Payment Reserve to Accumulated Loss.

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 £4.19 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.

The remaining average contractual life of the 33,777,310 warrants outstanding at 31 December 2018 (2017 – 13,777,310) was 3.18 years at that date (2017 – 1.97 years). All such warrants were exercisable at 31 December 2018.

The weighted average exercise price of the warrants remaining was 22.98p at 31 December 2018 (2017 – 9.64p). No further warrants have been issued or exercised as at 28 March 2019.

17 Cash and cash equivalents

Group and Company	2018 £000	2017 £000
Cash at bank	**702**	145

18 Company loss for the year

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

The Company loss for the year was £2,604k (2017: profit £1,176k).

19 Operating Leases

	Group		Company	
	2018	2017	**2018**	2017
	£000	£000	**£000**	£000
Minimum lease payments under operating leases recognised as a gross expense in the year	**73**	64	**73**	64
Minimum lease payments under operating leases recognised as capital expenditure in the year	**87**	-	**-**	-

At 31 December 2018, outstanding commitments for operating lease payments fall due as follows:

	Group		Company	
	2018	2017	**2018**	2017
	£000	£000	**£000**	£000
Within one year	**187**	73	**73**	73
In the second to fifth year inclusive	**454**	200	**126**	200

Operating lease payments represent the Group and Company's share of office lease rental payments at 10 Arthur Street, London EC4R 9AY, together with the Crown Estate lease for the rights for the Thames Pipeline to cross the foreshore at Bacton.

20 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
- Loans
- Trade and other payables

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

2018 Group	6 months or less £000	Greater than 6 months, less than 12 months £000	Greater than 12 months £000	Total undiscounted £000	Carrying amount £000
Current financial assets					
Cash and cash equivalents	702	-	-	702	702
	702	**-**	**-**	**702**	**702**
Current financial liabilities					
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
Non-current financial liabilities					
Deferred Consideration	-	-	5,426	5,426	4,478
Loans	-	-	34,118	34,118	22,884
Decommissioning Provisions	-	-	6,291	6,291	4,331
	14,372	**4,213**	**45,835**	**64,420**	**49,764**
2017 Group					
Current financial assets					
Cash and cash equivalents	145	-	-	145	145
	145	**-**	**-**	**145**	**145**
Current financial liabilities					
Trade and other payables	1,225	5,979	208	7,412	7,038
Non-current financial liabilities					
Provisions	-	-	5,206	5,206	4,371
Loans	-	-	15,705	15,705	13,000
	1,225	**5,979**	**21,119**	**28,323**	**24,409**

20 Financial instruments (continued)

2018 Company	6 months or less £000	Greater than 6 months, less than 12 months £000	Greater than 12 months £000	Total undiscounted £000	Carrying amount £000
Current financial assets					
Cash and cash equivalents	702	-	-	702	702
Loans to Group companies	-	-	29,526	29,526	29,526
	702	**-**	**29,526**	**30,228**	**30,228**
Current financial liabilities					
Trade and other payables	6,017	-	-	6,017	5,961
Deferred Consideration	1,750	-	-	1,750	1,709
Accruals	402	-	-	402	402
Non-current financial liabilities					
Deferred Consideration	-	-	1,500	1,500	1,259
Loans	-	-	23,543	23,543	14,054
	8,169	**-**	**25,043**	**33,212**	**23,385**
2017 Company					
Current financial assets					
Cash and cash equivalents	145	-	-	145	145
Loans to Group companies	-	-	12,280	12,280	12,280
	145	**-**	**12,280**	**12,425**	**12,425**
Current financial liabilities					
Trade and other payables	1,038	5,979	-	7,017	6,643
Non-current financial liabilities					
Deferred Consideration	-	-	1,500	1,500	1,259
	1,038	**5,979**	**1,500**	**8,517**	**7,902**

20 Financial instruments (continued)

Credit risk

Credit risk arises principally from the Group's and Company's other receivables, 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. All funds are currently placed with the National Westminster Bank plc. IFRS 9 provides an updated framework for the accounting recognition and treatment of the Group's and Company's other receivables held. The Group and Company adopted IFRS 9 in this financial year. Management have chosen not to apply the standard retrospectively on the basis of the impact not being material, both in terms of impairment or additional Expected Credit Losses ('ECLs') recognised. The Company has assessed that the resulting impact on the financial statements is not material.

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 do not have any other external receivables (2017: £17k).

IFRS 9 introduces a new impairment model that requires the recognition of ECLs on financial assets at amortised cost. The ECL computation must also consider forward looking information to recognise impairment allowances earlier. IFRS 9 consequently is likely to increase the volatility of impairment allowances as the economic outlook changes although cash flows and cash losses are expected to remain unchanged. Intercompany exposures, where appropriate, are also in scope under IFRS 9. The Company has assessed 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.

	Group		**Company**	
	2018 £000	2017 £000	**2018 £000**	2017 £000
Other receivables	**-**	17	**-**	17
Loans to subsidiaries	**-**	-	**29,526**	12,280
Cash and cash equivalents	**702**	145	**702**	145

20 Financial instruments (continued)

Cash flow interest rate risk

Cash is essentially non-interest bearing. Loans and trade creditors are subject only to fixed interest rates (albeit with low volatility LIBOR+ variation); accordingly, commercial interest rates would have no significant impact upon the Group's and Company's result for the year ended 31 December 2018 (nor 31 December 2017).

Foreign exchange risk

At 31 December 2018, the Group's and Company's monetary assets and liabilities are denominated in GBP Sterling, the functional currency of the Group and each of its subsidiaries, other than USD 1,848k (£1,451k), EURO 717k (£644k) and NOK 891k (£81k) of current liabilities held by the Group and Company and USD 4,100k (£3,219k) of long-term liabilities held by the Group. 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 USD would give rise to a £425k gain or £519k loss in the Group's Statement of Comprehensive Income and a £132k gain or £161k loss in the Company's Statement of Comprehensive Income.

A 10% fluctuation in the GBP sterling rate compared to EURO would give rise to a £58k gain or £72k loss in the Group and Company's Statement of Comprehensive Income.

A 10% fluctuation in the GBP sterling rate compared to NOK would give rise to a £8k gain or £9k 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. Consequently, no formal policies have been put in place to hedge the Group and Company's activities to the exposure to currency risk. It is the Group's policy to ensure that individual Group entities enter transactions in their functional currency wherever possible. The Group considers this minimises any foreign exchange exposure.

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

Capital management

The primary objective of the Group's capital management is to maintain appropriate levels of funding to meet the commitments of its forward programme of 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 14 and 15. Prior to 1 January 2016, the Group has been principally equity financed, reflecting the early stage and consequent relatively high risk of its activities. During 2016, 2017 and 2018 the Group made drawings of £30.70 million against its London Oil & Gas Limited loan facilities.

Borrowing facilities

The Group had £34.03 million of borrowings outstanding at 31 December 2018 (2017 - £13.00 million) including accrued interest. It had in place further undrawn debt on the London Oil & Gas Limited facilities of a total £7.85 million excluding accrued interest, at that date. A further £3.925 million was drawn in January 2019 and £3.925 million outstanding remains.

Hedges

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

21 Financial commitments and contingent liabilities

The Group has contracted capital expenditure in the current period as part of the appraisal and development work programmes for the licences in which it participates:

	2018	2017
	£000	£000
Authorised but not contracted	**-**	7,560
Contracted	**1,287**	1,358
	1,287	8,918

All 2018 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 SNS assets (Harvey well long lead items, project personnel and offshore engineering duty holder commitments). There are no further authorised amounts, at 31 December 2018, as the Group awaits the outcome of discussions and negotiations on Group fund raising and refinancing.

All 2017 capital commitments, in addition to contracted UKCS Licence Fee and associated OGA Levy payments, were owing to 2018 activities committed at 31 December 2017 in conjunction with the Group's participation in its UK North Sea operations.

Skipper:

As detailed in Note 24, Subsequent Events, the Skipper licence P1609 was relinquished in February 2019, discharging all contingent liabilities at that date.

Thames Pipeline:

Security in the sum of £0.50 million, the Initial Thames Decommissioning Pipeline Security Amount, was provided on completion of the Thames Pipeline SPA in April 2018.

Further security in the sum of £2.50 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

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.

22 Related party transactions

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

Mark Hughes, COO, acquired 178,000 ordinary shares of 1p each in the capital of the Company and is the current holder of these shares at 31 December 2018. Mark is also the current holder of 1,062,417 share options at 31 December 2018; these were also acquired during the year.

South Riding Consultancy Limited ('SRCL') of which Martin Ruscoe is a director acquired a further 65,067 share options (2017: 113,254) and exercised nil share options (2017: 148,113) during the year. SRCL is the current holder of 148,113 shares and 109,766 share options as at 31 December 2018.

Details of loans and interest charged by LOG are detailed in Notes 14 and 15. The relevant loans were issued to both IOG North Sea Limited and the Company.

23 Notes supporting statements of cash flows

Details of significant non-cash transactions

	2018 **£000**	2017 £000
Equity consideration for settlement of liabilities	**-**	1,982

Group – Loans and borrowings

	Current loans and borrowings £000	Non-current loans and borrowings £000	Total loans and borrowings £000
At 1 January 2017	4,076	4,733	8,809
Drawdowns (Repayments)	(2,019)	6,372	4,353
Effects of foreign exchange	(15)	-	(15)
Debt converted into equity	(1,750)	-	(1,750)
Debt converted into current liability	(527)	-	(527)
Amortisation of finance fees	-	411	411
Interest accruing in period	235	878	1,113
At 31 December 2017	-	12,394	12,394

Of the interest accruing in the period, £22k was capitalised to D&P assets, leaving £1.09 million expensed to the Statement of Comprehensive Income (Note 5).

23 Notes supporting statements of cash flows (continued)

Group – Loans and borrowings

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

Of the interest accruing in the period, £752k was capitalised to D&P and Pipeline assets, leaving £1.49 million expensed to the Statement of Comprehensive Income (Note 5).

Company – Loans and borrowings

	Current loans and borrowings **£000**	Non-current loans and borrowings **£000**	**Total loans and borrowings £000**
At 1 January 2018	**-**	**-**	**-**
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**
At 31 December 2018	**-**	**14,054**	**14,054**

The Company was not subject to loans and borrowings in 2017.

24 Subsequent events

The key events after 31 December 2018 are as follows:

Fiona MacAulay was appointed non-executive Chair effective 1 January 2019.

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

Esa Ikaheimonen was appointed Non-Executive Director and Chair of the Audit Committee on 14 March 2019**.**

On 4 January 2019, it was announced that the Financial Conduct Authority ('FCA') was investigating the affairs of LCAF. LCAF was subsequently put into administration during February 2019. Furthermore, LOG entered administration on 19 March 2019. The Company has engaged with LOG and LCAF administrators who have agreed to restructure the LOG loans and have stated publicly that they will support IOG and the LOG/LCAF administration process will have no impact on the Company's business.

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

The Company announced on 25 February 2019 that it had initiated a focused farm-out process with a carefully selected shortlist of motivated and well-funded potential farm-in partners.

The Company announced on 5 March 2019 that it had received and promptly rejected an unsolicited pre-conditional proposal from RockRose Energy plc ('RockRose') in respect of a possible cash offer for the entire issued share capital of the Company at a price of 20 pence per Company share. Subsequently on 25 March 2019, the Company announced that RockRose had approached the joint administrators of LOG to acquire the entire debt and accrued interest due to LOG from the Company for the sum of £40 million in cash. The Board concluded to reject the proposal unequivocally and continue to state that this subsequent offer is a further transparent attempt by RockRose to deny both LOG's and LCAF's creditors, and by extension to LCAF's mini-bond holders, of fundamental value, seeking instead to reserve that value for the benefit of RockRose and those directly associated with RockRose. RockRose withdrew their proposal on 1 April 2019.

The Company announced on 1 April 2019 that it had conditionally placed 165,795,050 new ordinary shares of £0.01 each in the capital of the Company by way of a placing at a price of 10 pence per Ordinary Share to raise gross proceeds of approximately £16.6 million. In addition, a further proposed issue of 3,250,000 new Ordinary Shares by way of a subscription at a price of 10 pence per Ordinary Share by certain directors and key executives of the Company. Furthermore, the Company announced that it intends to launch an open offer to shareholders to raise approximately £2 million through the issue of approximately 20,128,580 new Ordinary Shares, also at an issue price of 10 pence per share. This Fundraising is conditional, inter alia, upon the approval of shareholders at a general meeting of the Company that will take place on or around 23 April 2019 and the admission of the relevant new Ordinary Shares to London AIM.

The Company announced on 1 April 2019, that concurrent to the Fundraising announcement above, the Company has restructured its debt with LOG (in administration) by rescheduling by twelve months, initially to January 2020, an amount of £7.1 million of debt service due to LOG, the conversion of £1.64 million in interest due from LOG's existing convertible debt into 20,497,204 new Ordinary Shares and a one year maturity extension to existing warrants being those 13,277,310 warrants which were granted by the Company in December 2015.

INFORMATION AND ADVISERS

Country of incorporation of parent company

United Kingdom

Legal form

Public limited company with share capital

Directors

Fiona MacAulay
Andrew Hockey
Mark Hughes
Rt. Hon. Charles Hendry
Martin Ruscoe
Esa Ikaheimonen

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