

UK Oil & Gas Ltd
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Company Registration No: 05299925

UK Oil & Gas PLC

**Annual Report and Accounts
For the year ended 30 September 2019**

Company Registration No: 05299925

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Forward-looking Statement

This annual report contains 'forward-looking information', which may include, but is not limited to, statements with respect to the future financial and operating performance of UK Oil & Gas PLC, its subsidiaries, investment assets and affiliated companies, the estimation of oil reserves or resources, the realisation of resource estimates, costs of production, capital and exploration expenditures, costs and timing of the development of new assets, requirements for additional capital, governmental regulation of operations and exploration operations, timing and receipt of approvals, licenses, environmental risks, title disputes or claims.

Often, but not always, forward-looking statements can be identified by the use of words such as 'plans', 'expects', 'is expected', 'budget', 'scheduled', 'estimates', 'forecasts', 'intends', 'anticipates' or 'believes', or variations (including negative variations) of such words and phrases, or state that certain actions, events or results 'may', 'could', 'would', 'might' or 'will' be taken, occur or be achieved. Forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause the actual results, performance or achievements of UK Oil & Gas PLC and/or its subsidiaries, investment assets and/or its affiliated companies to be materially different from any future results, performance, or achievements expressed or implied by the forward-looking statements.

Such factors include, among others, general business, economic, competitive, political and social uncertainties, the actual results of current exploration activities; conclusions of economic evaluations and studies, fluctuations in the value of UK Pounds Sterling relative to the United States Dollar, and other foreign currencies; changes in project parameters as plans continue to be refined; future prices of products; possible variations in recovery rates; failure of plant, equipment or processes to operate as anticipated; accidents, labour disputes and other risks of the oil and gas industry; political instability, adverse weather conditions, insurrection or war; delays in obtaining governmental approvals or financing or in the completion of development or construction activities.

Although UK Oil & Gas PLC has attempted to identify important factors that could cause actual actions, events or results to differ materially from those described in forward-looking statements, there may well be other factors that cause actions, events or results to differ from those currently anticipated, estimated or intended.

Forward-looking statements contained herein are made as of the date of this annual report, and UK Oil & Gas PLC disclaims any obligation to update any forward-looking statements, whether as a result of new information, future events or results or otherwise. There can be no assurance that forward-looking statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Accordingly, readers should not place undue reliance on forward-looking statements due to the inherent uncertainty therein. Nothing in this annual report should be construed as a profit forecast

OUR BUSINESS

UK Oil & Gas PLC ("UKOG" or the "Company") is an oil and gas exploration and production company, which specialises in creating new geological ideas, concepts and methodologies to find and produce oil from previously unexplored or overlooked rock formations within established oil-producing basins. Our current operational focus is on the UK onshore sector, where we aim to build a sustainable production base that can act as a springboard to further UK and worldwide opportunities. UKOG has operated safely and environmentally responsibly in the UK since 2013.

Driven initially by the successful Horse Hill Portland and Kimmeridge oil discoveries in 2014, our numerous subsequent asset acquisitions, successful drilling and flow testing programme has made UKOG one of the most recognised and stand-out players in the entire UK onshore sector. As of 1 August 2018, we ceased to be an investment company and the Company now trades as a fully-fledged operating oil and gas company.

Our portfolio consists of direct and indirect interests in eight UK onshore exploration, appraisal, development and production assets, all situated within the Weald and Purbeck-Wight Basins of southern England. We are by far the largest acreage holder in the south of England, and the fourth largest in the overall UK onshore, with assets covering 792 gross km².

We hold majority interests in four significant oil and gas discoveries, the most notable being at Horse Hill in Surrey, together with a significant position in the Kimmeridge Limestone (KL) oil deposit or "play". This play has the potential for exceptional growth, and UKOG holds the largest acreage position within the play's most prospective area or "sweet spot", covering 592 gross km².

Our portfolio contains a good balance of low-risk oil & gas production, appraisal and development assets within our conventional oil and gas portfolio as well as high upside exploration assets within both the Kimmeridge Limestone and Portland conventional plays.

In order to move our business forwards, we maintain a high level of operational activity, conducting near-continuous drilling and flow testing operations since May 2017. This operational programme led to our first operated field, Horse Hill, being brought into production.

Our portfolio has the potential to generate significant returns for the Company and its shareholders.

OUR STRATEGY

UKOG aims to build a diverse, sustainable and self-funding exploration and production business. Its key strategic objectives being:

1. **Find and Develop Low-Cost and Long-life Assets** - continuing to invest in our potential near-term production assets is a key priority. Once in production, the revenues from these assets will provide free cash flow to re-invest and deliver shareholder returns. This strategy is embodied by the current focus on Horse Hill, where the field has been brought into production.
2. **Resource and Reserve Growth** - building our recoverable resources, reserves and future production through targeted and disciplined high-impact exploration, appraisal projects and acquisitions. The Godshill exploration prospect and Loxley (Godley Bridge) gas appraisal project exemplify this strategy.
3. **Targeted Portfolio Management** - we continuously review and high-grade our portfolio to either acquire or divest further stakes in existing assets. We also look to acquire assets at any stage in the life cycle and are not limited by geography, where we can create significant value for shareholders. The acquisition of further interests in Horse Hill and the onshore Isle of Wight demonstrate our adherence to active portfolio management.

UKOG shares this vision and strategy through internal dialogue with employees and externally with shareholders and stakeholders via public announcements and dissemination of information through our website and the Annual Report and Accounts.

STATEMENT FROM THE CHAIRMAN

This is my second year with UKOG, and it has been fascinating to witness the giant strides the Company has made in terms of growing its asset base and moving its various projects forward in a systematic and positive way.

The volume of work from a relatively small team has been outstanding. The core of that team, with the invaluable assistance from experts in the technical, finance and legal fields, has managed to overcome a series of hurdles.

One of the biggest was the completion of a deal with Tellurian Investments LLC, who are based near my own office in Houston, Texas. The decision to acquire the entire share capital of Tellurian's subsidiary Magellan Petroleum (UK) Ltd for a cash plus shares deal has put UKOG in full command of its prime asset at Horse Hill and its future direction. To fund that acquisition is testament to UKOG's unique position in the market and to follow that with long-term production planning permission from the local authority was a massive boost to the Company.

I salute the entire team and I thank the shareholders for their continued and patient support. The team led by Stephen Sanderson are dedicated and totally committed to bringing success to UKOG and to bringing long-term value to shareholders.

There is of course much more than Horse Hill in the UKOG portfolio. Two further planning applications have been submitted for activity at Loxley, located in Surrey near the Broadford Bridge oil discovery, and at Arreton on the Isle of Wight. It is anticipated that the Loxley application will reach the Planning Committee stage in Spring 2020 and I remain confident that the Company will continue to work in harmony with local residents and neighbours.

Oil exploration is a complicated and time-consuming business. There are no guarantees of success and the regulatory procedure in the UK is clearly far lengthier and more intricate than we experience here in the USA. It also has a habit of absorbing considerable time and money.

This does not concern me unduly. I have confidence that UKOG will spend our investors' money wisely and ultimately to the benefit of all shareholders.

Allen D Howard
Non-Executive Chairman
31 March 2020

CHIEF EXECUTIVE'S STATEMENT

The past year has seen us focus upon the remaining necessary steps required to bring the Horse Hill oil field, our flagship asset near Gatwick Airport, into production. Post period, the Oil and Gas Authority (OGA) approved the Horse Hill Field Development Plan and granted production consent. Production has now commenced from the Portland oil pool via Horse Hill-1 (HH-1) along with continued test production from HH-2z.

The delivery of a continuous cash revenue stream and associated reserves is designed to firmly establish the Company as a significant UK onshore oil producer. Production will also give us reserves in the ground, which, for the first time in the Company's short history, could be utilised for debt-based funding, to fuel further growth at Horse Hill and our near-term appraisal projects at Loxley and Arreton.

Post period, following the grant of OGA's production consent, we have been actively reducing operating costs at Horse Hill. The timeliness of the exercise, given the Covid-19 emergency and the resultant falling oil price, has seen field operating costs reduce substantially. The cost reduction exercise will continue, with the aim of positioning the field to at least break even at current Brent prices.

Whilst our primary goal has been upon delivering long-term cash flow from the Portland oil pool, we have also continued to test and evaluate the underlying Kimmeridge oil pool, as we believe this can provide significant future production and revenue upside. We plan to change HH-1 to a dual Portland and Kimmeridge producer in the coming months following a return to stability post Covid-19. Then, in due course, we anticipate using some of the resultant cash flow to drill further Horse Hill wells.

During the period we continued to achieve major production, regulatory and corporate milestones at Horse Hill. Following successful extended well testing (EWT), around 96,000 barrels (bbl) of Brent-quality crude oil have been produced to date from the Portland and Kimmeridge oil pools via HH-1 and HH-2z, with oil being largely exported and sold to *Perenco at the Hamble oil terminal for onward shipment to Esso's Fawley refinery near Southampton*.

We were granted full planning consent for long-term oil production at Horse Hill by Surrey County Council's Planning and Regulatory Committee in September 2019, the day after we acquired Tellurian's 35% stake in the asset and licences. The award of this key consent, at the first time of asking, is both a testament to the professionalism of our team and to the excellent working relationships they have built with all stakeholders.

The Tellurian acquisition was of paramount importance as it significantly increased our equity share of future Horse Hill production to 85.635% and, critically, provided UKOG with full control of the project and the highly prospective surrounding licences. The acquisition price was achieved at a lower price per equity point compared to the Company's prior acquisitions of HHDL shareholder's interests.

Towards the end of the period we started the first Portland pool development phase by successfully drilling, coring, logging and completing the field's first horizontal well, HH-2/HH-2z. The well delivered a 2,500 ft section wholly within the most oil productive reservoir zones demonstrated at HH-1.

Adding the HH-2z production stream was temporarily delayed by the unexpected ingress of formation water during the initial test flow period. Post period a water shut-off operation was successfully completed to isolate the source of water ingress, which was a naturally fractured zone at the well's end or "toe". The HH-2z well clean-up and EWT have been resumed following this successful intervention.

The combination of our progress to date and the high traded volumes in our UK listed shares supports our ability to seek to raise additional working capital, should it be required

The company continued to pioneer the innovative use of new technology over the reporting period. This ranged from bespoke safety equipment to enable simultaneous HH-2/2z drilling and HH-1 EWT last autumn, new core and rock evaluation methodologies in HH-2 and the use of a bespoke permanent magnet electric submersible pump (ESP) in the HH-2z well. We plan in the short term to produce HH-1 via a similar ESP system.

CHIEF EXECUTIVE'S STATEMENT (CONTINUED)

Over the past 12 months we have also developed detailed strategies for other assets such as Loxley in Surrey and Arreton on the Isle of Wight, holding public engagement events with local residents and interested parties, including key council planning authority officials.

During this reporting period, we also used scientific fact, not fiction, to deal with the considerable local interest into the possible causes of the seismic events in the Newdigate area, located southwest of Horse Hill. Two eminent experts, Dr Stephen Hicks of Imperial College London and Dr James Verdon of the University of Bristol, have both independently concluded that the earth tremors were not induced by human industrial activities. These conclusions have also been endorsed by OGA, the relevant regulator, and British Geological Survey (BGS), who provides independent advice to the British government on all aspects of geoscience, as well as providing impartial advice on geological matters to the public, academics and industry.

In line with our prudent portfolio management plan, we plugged & abandoned our Markwells Wood well in January 2019 and have since restored the site and planted 2,000 trees and shrubs.

Covid-19

Post period, the Coronavirus emergency has provided us all with extraordinary new challenges. In early March 2020 we implemented a wide series of Covid-19 procedures and practices that protect the health and safety of our staff, consultants and stakeholders. The policy adopts the Government's medical guidance at all times, including social distancing, and ensures appropriate levels of manpower and resources are maintained to ensure the safety of our operations as well as the health and safety of our team.

At Horse Hill, we have adopted the policy of deploying essential staff only, all of whom are designated as "key workers" under the Government's emergency legislation. Strict hygiene and distancing practices are in place to ensure that production continues at Horse Hill whilst protecting our team's health. As the plan minimises external contractor visits to those essential for safety, regulation and crude export, the planned series of further well interventions have been put on temporary hold until the current emergency passes.

Our office staff have also been adhering to best advice and practices, by working from home and communicating remotely using video conferencing technology which, fortunately, had been in active use within UKOG prior to the emergency.

As previously stated in this report, we have also begun to reduce our cost structure to meet the economic challenges of a low oil price world. We will continue to make prudent reductions in our operating expenditures.

Market place

The reporting period again saw volatility in oil prices, with Brent price rising to \$86/barrel (bbl) in October 2018 but falling to \$56/bbl in August 2019. Prices stabilised at around \$60-65/bbl for the latter part of 2019.

Global oil prices, as ever, continued to be driven largely by political events, global economic performance, economic outlook, oversupply via US shale production, high US stockpiles and, of course, a lack of real action by OPEC to curb quotas. Notable events in 2019 related to US foreign and trade policies, such as President Trump's tough US stance on Iranian sanctions and a trade war between US and China. The drone attack on Saudi Arabian oil facilities caused an oil price spike, but this was short-lived as production was quickly restored.

This year's oil prices have clearly been adversely affected by the Coronavirus pandemic, exacerbated by an unsuccessful "OPEC+" meeting on 5/6 March 2020. A price war between Saudi Arabia and Russia caused Brent price to fall dramatically on 9 March. It remains to be seen how long this strategic dispute will continue. At the time of writing, Brent forward rates were at US\$35 for September 2020 and US\$44 for September 2021.

Global oil demand was expected to rise to over 100 million bbl per day in 2020, although this is now likely to be significantly lower in light of reduced demand during the Coronavirus period. Longer term, many analysts now predict that US shale production will diminish in a post Coronavirus world with lower oil prices, as the marginal cost of production remains high at around \$50/bbl.

CHIEF EXECUTIVE'S STATEMENT (CONTINUED)

Reduced US domestic production is therefore seen by some analysts to be a potential catalyst for future diminishing supply, lower future US inventories, likely resulting in either stable or rising oil prices over the coming few years, dependent on how quickly demand ramps up post Coronavirus.

Once we fully implement the cost reduction measures across the Group, Horse Hill will be well protected from low oil prices. Horse Hill also stands to benefit significantly from high oil prices, as, following our post production consent operating cost reductions, our production costs per bbl are forecast to be significantly below those of our UK competitors. The cost reductions should enable Horse Hill to at least break even at low Brent prices.

Financial Summary

UKOG raised a total of £5.5 million from two separate placings, one of £3.5 million in March 2019 and another of £2 million post period in December 2019. In addition, in August 2019 the company entered into an advantageous £5.5 million loan finance arrangement with Riverfort Global Opportunities PCC Limited and YA II PN Ltd (Riverfort).

In August 2019 binding heads of terms were signed with Tellurian Investments LLC to acquire the entire share capital of its subsidiary Magellan Petroleum (UK) Investment Holdings Limited for a total consideration of £12 million in cash and UKOG shares. The Riverfort cash element was fundamental to the success of this transaction as it provided absolute certainty that the initial £5 million cash instalment was available.

The remaining capital injection funded key drilling, completion and testing operations at HH-2/2z, ongoing EWT operations at HH-1, further surface facilities and several acquisitions.

The Company also acquired a 6% strategic shareholding in HHDL from Doriemus PLC for £2.1 million in shares, taking its overall interest in the project at the time to a majority 50.635% interest. In addition, UKOG acquired the 20% interest of Europa Oil & Gas (Holdings) plc and 7.5% interest of Union Jack Oil plc in the highly prospective PEDL143, which contains the "A24" Portland and Kimmeridge prospect that is a direct geological look-alike to Horse Hill.

We also increased our interest in the PEDL331 onshore Isle of Wight Arreton oil discovery and geological look-alike exploration prospects to 95% via acquisition of Solo Oil plc's 30% interest, paying £350,000 in cash and UKOG shares.

Operations

As a result of our acquisitions and successful capital raises, UKOG was in a strong position to drive the business forward. The reporting period began with the company's declaration of Horse Hill Portland commercial viability and finished with the planned simultaneous drilling and test production operations at Horse Hill, maintaining continuous HH-1 Kimmeridge test production throughout the HH-2/2z horizontal drilling campaign.

As detailed below in the Operational Review, Horse Hill operations have continued throughout the reporting period, operated by our subsidiary Horse Hill Developments Ltd. We have worked tirelessly to exploit our leading acreage position in the Weald Basin by operations designed to maximise and accelerate revenue generation.

It is our view that it would be prudent to wait to commission a Competent Person's Report to fully capture Proven and Probable Reserves once we have established long-term production at Horse Hill from HH-2z and a dual Portland and Kimmeridge completion in HH-1.

Our sites at Loxley in Surrey and Arreton on the Isle of Wight remain firmly in our focus. The Loxley application is expected to reach the planning committee stage post period in Spring 2020. We still aim to drill the Loxley appraisal well during the winter of 2020/2021. The Arreton planning application was submitted in March 2020.

CHIEF EXECUTIVE'S STATEMENT (CONTINUED)

Injunction

UKOG's interim injunction order, obtained in November 2018, remains fully in force against those who wish to unlawfully disrupt UKOG's right to conduct its lawful business activities. Protesters decided launched an appeal in Spring 2019, but the appellants failed to provide the Judge with necessary documentation or evidence.

The interim injunction orders remain in place. UKOG will be seeking final injunction orders to restrain trespass, obstructing UKOG's sites, blocking the public highway, slow walking, standing in front of vehicles, climbing onto vehicles or trailers or attaching themselves to equipment. The orders will be limited to what is necessary to protect UKOG's lawful business and to prevent unlawful protest and trespass.

UKOG will continue to take whatever action may be necessary to protect itself against unlawful protest activity and trespass at its operating sites. It will continue to recognise and support the right of lawful protest as a fundamental human right.

Stephen Sanderson
Chief Executive
31 March 2020

PRINCIPAL RISKS AND UNCERTAINTIES

UKOG continuously monitors its risk exposures and reports its review to the board of directors (The Board). The Board reviews these risks and focuses on ensuring effective systems of internal financial and non-financial controls are in place and maintained.

Key risk areas

The high-risk areas surrounding our existing business is tabulated below; the key areas are Strategic, Operational and Financial.

Risk	Mitigation	Magnitude and likelihood
Strategic risks		
Exposure to political risk , due to changes in government or government policies UKOG could be exposed to significantly different regulatory of fiscal environments which could affect the ability of UKOG to deliver to its Strategy	Through industry associations and direct contact, the Company engages with Government and other appropriate organisations to ensure the Company is kept abreast of expected potential changes and takes an active role in making appropriate representations.	Magnitude- High Likelihood - Medium
Operational risks		
Permitting risk , planning, environmental, licensing and other permitting risks associated with our operations particularly with exploration drilling operations.	The Company has to date been successful in obtaining the required permits to operate. Therefore, UKOG considers that such risks are partially mitigated through compliance with regulations, proactive engagement with regulators, communities and the expertise and experience of the management teams.	Magnitude- High Likelihood – High
Exploration risk , the Company fails to locate and explore hydrocarbon-bearing prospects that have the potential to deliver commercially, e.g. key wells are dry or less successful than anticipated	Analysis of available technical information to determine the work programme. Risk sharing arrangements entered to reduce downside risk	Magnitude- High Likelihood – High
Oil production , oil is not produced in the anticipated quantities from the Group's assets, or it cannot be produced economically	Analysis of available technical information to improve our understanding of the reservoir and continue to review costs structure to target low production costs	Magnitude- High Likelihood – Medium
Oil price risk , exposure to market price risk through variations in the wholesale price of oil in the context of production from the oil fields we own and operate	The Group will seek to hedge part if not all of its production, where appropriate	Magnitude- High Likelihood – High
Loss of key staff	Provide and maintain competitive remuneration packages to attract the right calibre of staff. Build a strong and unified team	Magnitude- High Likelihood – Low
Financial risks		
Liquidity risk , exposure through its operations to liquidity risks.	The Board regularly reviews UKOG's cash flow forecast and the availability or adequacy of its current facilities to meet UKOG's cash flow requirements	Magnitude- High Likelihood - Medium

OPERATIONAL REVIEW

UKOG's operational activities focused on our core Horse Hill asset during the reporting period. The HH-1 EWT continued and the HH-2/2z appraisal well was drilled. UKOG completed its first UK well abandonment operation at Markwells Wood (MW), located within the South Downs National Park, and post period completed the restoration and re-planting of the MW site.

Horse Hill, PEDL137 and PEDL246 (UKOG 85.64%)

HH-1 EWT operations continued virtually uninterrupted throughout the reporting period. The licence is operated by our subsidiary company, Horse Hill Developments Ltd (UKOG 77.9% controlling shareholding), which holds a 65% direct interest in the field and surrounding highly prospective licences. UKOG also owns the remaining 35% direct interest in the Horse Hill licences through its wholly owned subsidiary UKOG (137/246) Ltd.

The HH-1 Portland oil discovery was declared to be commercially viable in October 2018. No formation water has been seen in HH-1. The produced crude has been exported and sold to UK oil refineries via nearly 500 road tankers.

The two Kimmeridge oil pools (KL3 and KL4) in the HH-1 well are now recognised to be one single accumulation 358 ft thick, as evidenced by fluid and pressure data.

Drilling of the HH-2/2z horizontal appraisal well commenced in September 2019 and was successfully completed post period in November 2019. The HH-2 pilot hole was extensively cored and electric logged over the full extent of the Portland oil pool. The HH-2z sidetrack was then drilled with a horizontal trajectory of 2,500 ft within the Portland oil pool's most productive zone. A high capacity/high rate electric submersible pump (ESP) was run in the well.

Post period the HH-2z well was cleaned up using the ESP, with evidence of formation water recorded. A water shut-off well intervention has been successfully completed to isolate the source of water ingress, which was a naturally fractured zone at the well's end or "toe". The HH-2z well clean-up and EWT have been resumed following this successful intervention.

Around 96,000 bbl of oil had been produced from the Portland and Kimmeridge oil pools in the HH-1 and HH-2z EWTs.

A planning application to Surrey County Council (SCC) was submitted in December 2018 for Horse Hill long-term production. SCC approved the production planning application in September 2019. A Field Development Plan (FDP) was submitted to the OGA and approved in March 2020. The FDP covers the HH-1 well and Portland reservoir unit. Further Horse Hill field development phases will be submitted to OGA via FDP addenda, initially the HH-1 Kimmeridge reservoir unit and HH-2z.

Markwells Wood, PEDL126 (UKOG 100%)

UKOG completed the planned plug & abandonment (P&A) operations on the MW 1 well. Three cement plugs were set in the well and the wellhead was removed. Post period the Markwells Wood site was also restored and re-planted to its original woodland condition.

Loxley, Broadford Bridge, PEDL234 (UKOG 100%)

In April 2019 UKOG submitted a planning application for drilling of the Loxley-1 well, which is intended to appraise the potentially significant Godley Bridge Portland gas discovery, located in the northwest of the licence. Post period, in October 2019, a Loxley permit application was submitted to EA.

The primary objective is to drill, core and test the centre or "crest" of the Portland gas accumulation. If the initial test is successful, we will drill and test a horizontal sidetrack, Loxley-1z, within the Portland and carry out an EWT to establish commercial viability.

Post period, in November 2019, UKOG submitted a planning application to extend the existing Broadford Bridge planning approval by 24 months to March 2022.

OPERATIONAL REVIEW (CONTINUED)

Also post period, OGA approved an amendment to the PEDL234 Retention Area work programme, wherein Loxley-1 is to be drilled by December 2021.

Isle of Wight Arreton oil discovery, Godshill prospect and Arreton East prospect, PEDL331 (UKOG 95%)

PEDL331 on the Isle of Wight contains the lion's share of UKOG's discovered audited recoverable conventional oil resources (UKOG net P50 Contingent Resources of 14.9 MMbbl). UKOG signed leases for well sites at Godshill (formerly Arreton South) and Arreton in January 2019 and August 2019 respectively. Post period in December 2019, a stakeholder exhibition was held for both sites. The Arreton planning application was submitted in March 2020. The Godshill planning application submission will follow.

Our forward plan is to first drill, core and test an Arreton-3 pilot well which effectively twins the prior Arreton-2 oil discovery, made by British Gas in the 1970s. If oil flows are encouraging, we will then drill and EWT a horizontal sidetrack, Arreton-3z, within one of the three vertically adjacent Jurassic reservoirs, most likely the Portland, which is a natural-fracture enhanced sandy limestone of better porosity than Horse Hill. Both vertical pilot wells will also core and test the underlying Kimmeridge section.

Should Arreton-3 results prove encouraging we plan to move directly to drill, core and test a vertical pilot hole in the geological look alike Godshill exploration prospect, which contains around 50 MMbbl of oil in place (OIP) within the Portland plus significant further upside in the Kimmeridge and Inferior oolite sections. As per Arreton-3, if the initial results are encouraging, we plan a horizontal sidetrack and EWT.

UKOG's subsurface team have also identified a further large undrilled anticlinal structure, the Arreton East Prospect, another look-alike to the Arreton discovery and lying further to the east along the same geological trend. Initial mapping shows this feature to be many times larger than both the Arreton oil discovery and Godshill prospect combined.

OGA granted a two-year extension of PEDL331 to 20 July 2023.

"A24" Prospect, PEDL143 (UKOG 67.5%)

UKOG assumed operatorship of PEDL143 operatorship on OGA approval in April 2019.

The licence lies immediately west of the Company's Horse Hill licences and contains the significant "A24" Portland and Kimmeridge oil prospect, a direct geological look-alike to the Company's Horse Hill oil field, situated on-trend some 8 km to the east. Several smaller prospects of similar size to the nearby Brockham Portland oil field have also been identified. Multiple potential new drilling sites outside the nearby Area of Outstanding Natural Beauty are under evaluation.

OGA granted a two-year extension of PEDL143 to 30 September 2022.

Other assets

The Horndean oil field in Hampshire (UKOG 10%) continued stable oil production, averaging around 133 bopd gross with low water cut in 2019.

Matt Cartwright
Commercial Director
31 March 2020

FINANCIAL REVIEW

Income statement

Production continued from Horndean generating 2019 revenues of £0.21 million, resulting in a gross profit of £0.12 million (2018: £0.13 million).

Administration costs increased from £3.24 million during the period ending 30 September 2018 to £4.17 million during the period ending September 2019. The main drivers for this were an increase in wages and salaries as we increased staff from 6 to 11.

The net effect of the above was to increase the operating loss to £4.79 million compared to £3.76 million in the previous financial year. After the net effect of finance cost and income the Group's loss before taxation was £5.39 million, compared to £16.75 million in the period ending 30 September 2018.

Cash flow and financing

During the reporting period net cash outflow from operating activities prior to cashflows outflows in relation to investing activities was £5.73 million (2018: cash outflow of £7.42 million). The reduced outflow is primarily attributable to an increase in trade and other payables compared to last year.

UKOG raised £8.5 million (net of costs) during the year, which along with the cash and cash equivalents at the beginning of the period of £12.43 million was primarily used to fund our investing activities.

The cash outflow from investing activities increased from £3.53 million in the period ending 30 September 2018 to £8.31 million for the period ending 30 September 2019. The primary driver for this variance was the payments for the acquisition of Magellan Petroleum (UK) Investment Holdings Limited.

As a result, UKOG had a £5.54 million net decrease in cash, and £6.89 million in cash and cash equivalents at the end of the period.

Balance Sheet

During 2019, non-current assets increased to £46.65 million (2018: £31.01 million), primarily this was as a result of goodwill accounted for on the acquisition the entire share capital of Magellan Petroleum (UK) Investment Holdings Limited for a total consideration of £12 million in cash and UKOG shares. Total current assets decreased from £13.65 million at 30 September 2018 to £8.07 million at 30 September 2019 as a result of our investing and operating activities.

Our total liabilities increased to £13.49 million (2018: £6.52 million), as a result of entering into the convertible loan note and an increase in trade and other payables associated with the increased activities at the Horse Hill site, and deferred consideration in relation to the Magellan Petroleum (UK) Investment Holdings Limited acquisition.

At the end of the period, the UKOG had £6.89 million (2018: £12.43 million) in cash and cash equivalents.

Kiran Morzaria
Finance Director
31 March 2020

KEY PERFORMANCE INDICATORS

UKOG is has adopted both financial and non-financial key performance indicators (KPI's) to measure progress against our strategy. We have not presented comparable measurements this year, as we became an operating company during the reporting period. However, we have presented the KPI's for the full financial year rather than the period we were an operating company. These KPI's will develop and new ones added as we progress our strategy.

Financial KPI's												
				Production (bopd)			Operating costs (£/bbl)			Operating Cashflow £m		
				Year	2019	2018	Year	2019	2018	Year	2019	2018
				(bopd)	135	137	(£/bbl)	18	18	£m	(6.25)	(7.43)
Reason for choice				The Company production will provide operating cashflow to fund our investments and deliver shareholder value. At this point in time we receive production from our ownership in the Horndean oil field which is not under our control			Operating costs per bbl will be a key focus for our operations and the focus for the Company will be to keep these costs low so as to improve the cash we can generate from our producing assets. Currently the operating costs are in relation to our ownership of the Horndean oil field, which is not under our control.			Our cashflow is key to providing funding investing in the business and pursue our strategy. This has to date predominantly been via equity and debt funding		
How we measure				Daily and weekly production is monitored for all producing assets and reported to senior management. Production forecasts are prepared during the year to measure progress against the production target.			Operating costs will be monitored closely, to ensure that budget targets are being met.			Cashflow forecasts are reported to the Board on a regular basis, to ensure our progress is within our budget. Long-term forecasts are also provided to ensure that the strategy of the business can be adequately funded		
Non-Financial KPI's												
				Lost time injuries (LTI & LTI Frequency)								
				2019 – 0, LTI Frequency 0; 2018 – 1, LTI Frequency 2.23								
Reason for choice				Health & safety is our highest priority and we look to provide the highest level of protection to all our stakeholders								
How we measure				We track HSE lagging indicators during the year, which are reported to the Board. We aim to have zero LTI's. If we have an LTI it is investigated and a clear remedial action is identified and implemented								

RESERVES AND OIL IN PLACE

UKOG has estimated net attributable P50 reserves of 111,100 bbl of oil (effective 31 December 2019, see Table 1). This figure is 39% higher than last year, due to an updated evaluation in IGas's February 2020 Competent Person's Report (CPR), prepared for them by DeGolyer and MacNaughton. This CPR includes revised Horndean oil field (UKOG 10%) and Avington oil field (UKOG 5%) reserves. It is expected that during the next period, once permissions for long term production are received, reserves will be added for Horse Hill's Portland oil pool.

UKOG also has 26.3 MMbbl of net attributable P50 Contingent and Prospective Resources, 16.2 MMbbl of this is in two non-KL discoveries (see Table 2 below). Table 2 includes net Contingent Resources for the Horse Hill Portland reservoir. However, Table 2 does not include net Contingent Resources for the PEDL234 Loxley Portland gas discovery (formerly called Godley Bridge).

Gross unrisks OIP for UKOG's licence interests are shown in Table 3. These OIP volumes are dominated by the Kimmeridge OIP estimated for the Horse Hill and Broadford Bridge/Loxley licences. Note that UKOG's calculated 28 billion cubic feet (bcf) share of gas in place for Loxley Portland is not included.

Table 1: UKOG's Producing Fields, Gross and Net Reserves (at 31 December 2019)

Asset	UKOG Interest	Gross Reserves (Mbbbl)			Net Reserves (Mbbbl)			Source, Date
		P90	P50	P10	P90	P50	P10	
Horndean	10%	923	1,085	1,251	92.3	108.5	125.1	IGas/DG&M, Feb 2020
Avington ¹	5%	39	52	67	2.0	2.6	3.4	IGas/DG&M, Feb 2020
TOTALS					94.3	111.1	128.5	

Note: 1. Avington oil field currently shut in.

Table 2: UKOG's Unrisks Gross and Net Resources

Asset	Licence	UKOG's Interest	Gross Resources (MMbbl)			Net Resources (MMbbl) ¹			Source, Date
			P90	P50	P10	P90	P50	P10	
Avington ^{2,4}	PEDL070	5%	0.5	0.7	1.0	0.03	0.04	0.05	IGas/DG&M, Feb 2020
Horndean ^{2,4}	PL211	10%	0.3	0.8	1.3	0.03	0.08	0.13	
Horse Hill Portland ²	PEDL137	85.64%	0.6	1.5	3.6	0.5	1.3	3.1	Xodus, June 2018
Arreton Main ²	PEDL331	95%	9.9	15.7	24.1	9.4	14.9	22.9	Xodus, June 2018
Arreton Prospects ³	PEDL331	95%	4.0	10.5	21.6	3.8	10.0	20.5	Xodus, June 2018
TOTALS						13.8	26.3	46.7	

Notes:

1. UKOG net share.
2. Contingent Resources.
3. Prospective Resources.
4. IGas/DG&M's Contingent Resources estimates for Horndean and Avington: proven ("1C"), proven + probable ("2C"), proven + probable + possible ("3C") are deterministic, not probabilistic.

Table 3: UKOG Unrisks Gross OIP

Asset	Licence	UKOG's Interest	OIP (MMbbl) or GIIP (bcf)			Source & Date
			Low P90	Best P50	High P10	
Onshore Isle of Wight	PEDL331	95%	144	219	322	Xodus, January 2016
Horndean	PL211	10%	27	56	110	Northern/RPS, Feb 2010
Avington	PEDL070	5%	25	59	110	IGas/Senergy, July 2014
Horse Hill Portland	PEDL137	85.64%	22	32	47	Xodus, January 2017
Horse Hill Oil	PEDL137/246	85.64%	3,131	9,245	17,519	Nutech, June 2015
Horse Hill Oil	PEDL137/246	85.64%	N/A	10,993	N/A	Schlumberger, August 2015
Broadford Bridge/Loxley Oil	PEDL234	100.0%	3,158	7,120	13,717	Nutech, December 2016

HEALTH, SAFETY AND THE ENVIRONMENT

UKOG is committed to providing, so far as is reasonably practicable, a quality working environment that is safe and one that poses no risks to the health and safety of our employees, contractors, the local community and stakeholders.

The health & safety of employees and the public, and the protection of the environment are core business objectives of UKOG. They rank equally with the company's other business objectives.

Health, safety and environmental (HSE) risks associated with the business practices of UKOG are addressed through the effective implementation of our HSE Policy, which is designed to ensure that every person who works for UKOG is responsible for ensuring that health and safety is managed in all aspects of our business.

The Company's HSE aspirations are: "get it right, first time, every time with no accidents, no harm to people, the ecology and the environment".

To achieve the identified objectives, we will ensure that all necessary and reasonable resources are made available. We will confirm that objectives are being met by reviewing and reporting on performance and auditing the implementation and operation of UKOG's HSE Management System.

Our full HSE framework is available on our website: <http://www.ukogplc.com/page.php?ptID=101>

Health & safety review

UKOG has completed drilling operations at Horse Hill, continued with EWTs at Horse Hill, plugged and abandoned the Markwells Wood well and restored and re-planted the site. Multiple projects have been run simultaneously, as well as advancing planning for future projects.

There were no lost time injuries during the reporting period or post period. The lost time injury frequency was also zero. There were no environmental issues, including zero non-conformities or findings by the Environment Agency (EA) during their frequent and regular site visits.

UKOG continues to keep good housekeeping standards on its sites. The Company continuously monitors all its live operations for noise, ensuring noise from its sites is kept to a minimum and is compliant with the levels set by the relevant site planning approval. UKOG only utilises service companies that can demonstrate commitment to our HSE standards.

Any complaints received are reviewed and responded to. Communication links have been established with the residents close to our sites, who can call UKOG at any time.

At Horse Hill, the Company successfully operated an enclosed flare for the well testing programme. The flare, commonly used at landfill sites, is clean burning, without odour and produces low emissions. It was the first such clean-burn, fully enclosed flare employed in the UK onshore oil & gas industry.

Security

UKOG employed 24-hour security on its operational sites during the reporting period. There remains a security threat onshore UK from protester groups.

Community engagement

In keeping with our intention to be as transparent as possible in our dealings with local residents and other interested parties, we decided to replace the open-plan viewing platform at Horse Hill with a raised and glazed viewing tower. We had regular visitors during the year, including from SCC and parish councils.

Ahead of submitting a planning application to the Isle of Wight Council, UKOG held a Community Engagement Day for Arreton residents post period in mid-December 2019. The seven-hour exhibition was attended by an estimated 150 neighbours and interested parties, including local politicians and councillors.

The Company meets and communicates regularly with local police to give operational updates.

HEALTH, SAFETY AND THE ENVIRONMENT (CONTINUED)

Route to development

UKOG operates within a highly regulated industry, led by OGA, a Government agency reporting to the Department for Business, Energy & Industrial Strategy, who among other things are responsible for checking a company's financial and operational competency before issuing a Petroleum Exploration and Development Licence (PEDL) and other regulatory approvals.

Once a potential site has been identified, UKOG must secure landowner consent and a land lease to operate on the land, before EA assess any risk to water and air quality, as well as the arrangements for waste management.

In parallel with seeking EA permits, discussions with local planning authorities begin. They in turn seek the views of the local community and statutory consultees. The Health and Safety Executive also regulates and monitors all onshore oil & gas exploration and production activities.

CORPORATE GOVERNANCE

Introduction to governance

The Directors recognise that good corporate governance is a key foundation for the long-term success of the Company. As the Company is listed on the AIM market of the London Stock Exchange and is subject to the continuing requirements of the AIM Rules. The Board has therefore adopted the principles set out in the Corporate Governance Code for small and mid-sized companies published by the Quoted Companies Alliance ("QCA Code"). The principles are listed below with an explanation of how the Company applies each principle, and the reasons for any aspect of non-compliance.

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

UK Oil & Gas PLC provides shareholders with a full discussion of corporate strategy within our Annual Report. A dedicated section explains how we will establish long term shareholder value, as set out on page 4.

The Company is focused around 3 key strategic goals: Increase production and recovery from its existing asset portfolio, grow the asset portfolio through select onshore development and appraisal projects, actively manage costs and risks through operational and management control of the entire process of exploring, appraising and developing its assets.

The Management team actively evaluates projects that simultaneously de-risk the current portfolio and create long-term shareholder value. Projects are evaluated based on many characteristics to mitigate risk to our current activities they include but are not limited to alignment with the Company's core competencies, geography, time horizon and value creation. Further, a core component of the Company's activities includes an active dialogue with our legal and legislative advisors to ensure the Company remains up to date on current legislation, policy and compliance issues.

Key business challenges and how they may be mitigated are detailed in the Strategic Report on page 10.

2. Seek to understand and meet shareholder needs and expectations

UKOG encourages two-way communication with institutional and private investors. The Company's major shareholders maintain an active dialogue to and ensure that their views are communicated fully to the Board. Where voting decisions are not in line with the company's expectations the Board will engage with those shareholders to understand and address any issues. The Company Secretary is the main point of contact for such matters.

The Company seeks out appropriate platforms to communicate to a broad audience its current activities, strategic goals and broad view of the sector and other related issues. This includes but is not limited to media interviews, website videos in-person investor presentations and written content.

Communication to all stakeholders is the direct responsibility of the Senior Management team. Managers work directly with professionals to ensure all inquiries (through established channels for this specific purpose such as email or phone) are addressed in a timely matter. And that the Company communicates with clarity on its proprietary internet platforms. Senior management routinely provides interviews to local media, and business reporters in support of the company's activities. The Board routinely reviews the Company communication policy and programmes to ensure the quality communication with all stakeholders.

3. Take into account wider stakeholder and social responsibilities and their implications for long-term success

In all endeavours, the Company gives due consideration to the impact on its neighbours. The Company seeks out methodologies, processes and expertise in order to address the concerns of the non-investment community. As such, it actively identifies the bespoke needs of local communities and their respective planners.

For example, the company provides for local hotlines and establishes community liaison groups to address local questions and concerns.

UKOG seeks to maintain positive relationships within the communities we operate. As such, UKOG is dedicated to ensuring:

CORPORATE GOVERNANCE (CONTINUED)

- Open and honest dialogue;
- Engagement with stakeholders at all stages of development;
- Proactively address local concerns;
- Actively minimise impact on our neighbours; and
- Adherence to a strict health and safety code of conduct

As a responsible OGA approved and EA permitted UK operator, UKOG is committed to utilising industry best practices and achieving the highest standards of environmental management and safety.

Our operations:

- Continuously assess and monitor environmental impact;
- Promote internally and across our industry best practices for environmental management and safety; and
- Constant attention to maintaining our exemplary track record of safe oil and gas production.

For more information please refer to page 16 of the Annual Report as well as the Community section within the Company's corporate website.

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

Risk Management on page 10 of the Annual Report details risks to the business, how these are mitigated and the change in the identified risk over the last reporting period.

The Board considers risk to the business at every Board meeting (at least 4 meetings are held each year) and the risk register is updated at each meeting. The Company formally reviews and documents the principal risks to the business at least annually.

Both the Board and senior managers are responsible for reviewing and evaluating risk and the Executive Directors meet at least monthly to review ongoing trading performance, discuss budgets and forecasts and new risks associated with ongoing trading.

5. Maintain the Board as a well-functioning, balanced team led by the chair

Oversight of UKOG is performed by the Company's Board of Directors. Allen Howard, the Non-Executive Chairman, is responsible for the running of the Board and Stephen Sanderson, the Chief Executive, has executive responsibility for running the Company's business and implementing Company strategy. All Directors receive regular and timely information regarding the Company's operational and financial performance.

Relevant information is circulated to the Directors in advance of meetings. In addition, minutes of the meetings of the Directors of the UK subsidiaries are circulated to the Board. All Directors have direct access to the advice and services of the Company Secretary and are able to take independent professional advice in the furtherance of the duties, if necessary, at the company's expense.

The Board comprises two Executive Directors and two Non-Executive Directors with a mix of significant industry and business experience within public companies. The Board considers that all Non-Executive Directors bring an independent judgement to bear. All Directors must commit the required time and attention to thoroughly fulfil their duties.

The Board has a formal schedule of matters reserved to it and is supported by the Audit, Remuneration, Nomination and AIM Rules compliance committee. The Schedule of Matters Reserved and Committee Terms of Reference are available on the Company's website and can be accessed on the Corporate Governance page of the website.

CORPORATE GOVERNANCE (CONTINUED)

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

The Nomination Committee will determine the composition of the Board of the Company and appointment of senior employees. It will develop succession plans as necessary and report to the Directors. Where new Board appointments are considered the search for candidates is conducted, and appointments are made, on merit, against objective criteria and with due regard for the benefits of diversity on the Board, including gender.

The Company Secretary supports the Chairman in addressing the training and development needs of Directors.

As a small company, all members of the Board share responsibility for all Board functions. As such the Board will from time to time engage outside consultants to provide an independent assessment.

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

The Board carries out internal evaluation on individual Directors on an ad-hoc basis in the form of peer reviews and appraisals. The individual reviews and appraisals are used to identify group and individual targets which are reviewed and assessed at the end of the financial year.

In the current financial year, the Board of Directors will carry out evaluation of its performance annually, taking into account the Financial Reporting Council's Guidance on Board Effectiveness. All Directors will undergo a performance evaluation before being proposed for re-election to ensure that their performance is and continues to be effective, that where appropriate they maintain their independence and that they are demonstrating continued commitment to the role.

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

The Company is committed to maintaining and promoting high standards of business integrity. Company values, which incorporate the principles of corporate social responsibilities (CSR) and sustainability, guide the Company's relationships with clients, employees and the communities and environment in which we operate. The Company's approach to sustainability addresses both our environmental and social impacts, supporting the Company's vision to remain an employer of choice, while meeting client demands for socially responsible partners.

Company policy strictly adheres to local laws and customs while complying with international laws and regulations. These policies have been integral in the way group companies have done business in the past and will continue to play a central role in influencing the Group's practice in the future.

The ethical values of UKOG including health, safety, environmental, social and community and relationships, are set out on page 10 of the Annual Report.

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

The Company has adopted a model code for directors' dealings and persons discharging managerial responsibilities appropriate for an AIM company, considering the requirements of the Market Abuse Regulations "MAR"), and take reasonable steps to ensure compliance is also applicable to the Company's employees (AIM Rule 21 in relation to directors' dealings).

The Corporate Governance Statement details the company's governance structures, the role and responsibilities of each director. Details and members of the Audit Committee, Remuneration Committee, Nomination Committee and AIM Rules compliance committee can be found on from page 18 to page 27.

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

The Company encourages two-way communication with both its institutional and private investors and responds quickly to all queries received. The Chief Executive talks regularly with the Company's major shareholders and ensures that their views are communicated fully to the Board.

CORPORATE GOVERNANCE (CONTINUED)

The Board recognises the AGM as an important opportunity to meet private shareholders. The Directors are available to listen to the views of shareholders informally immediately following the AGM.

To the extent that voting decisions are not in line with expectations, the Board will engage with shareholders to understand and address any issues.

In addition to the investor relations activities carried out by the Company as set out above, and other relevant disclosures included on this Investor Relations section of the Company's website, reports on the activities of each of the Committees during the year will be set out in the Annual Report.

While building a strong governance framework we also try to ensure that we take a proportionate approach and that our processes remain fit for purpose as well as embedded within the culture of our organisation. We continue to evolve our approach and make ongoing improvements as part of building a successful and sustainable company.

Board of Directors

The Board consist of a team of experienced multidisciplinary members whom are committed to delivering shareholder value.

Allen D Howard, Non-Executive Chairman

Allen Howard was Senior Vice President of Houston-based Premier Oilfield Laboratories, having been Chief Operating Officer of well analysis experts Nutech. Allen also held senior positions with Schlumberger. He holds a degree in Chemical Engineering from Texas Tech University and an MBA from Mays Business School in Texas.

Stephen Sanderson, Chief Executive

Stephen Sanderson joined UK Oil & Gas PLC in September 2014 was appointed Executive Chairman and Chief Executive in July 2015 and in August 2018 ceded his role as Executive Chairmen to Allen D Howard as part of UKOG improvements in corporate governance. A highly experienced petroleum geologist, oil industry veteran and upstream energy business leader, with over 30 years operating experience, Stephen is a proven oil finder and has been instrumental in the discovery of more than 12 commercial conventional fields, including the Norwegian Smorbuk-Midgaard field complex.

Stephen held a variety of senior management roles for ARCO (which was acquired by BP in 2000), Wintershall AG (a subsidiary of German chemical giant BASF) and three junior start-ups. He created and ran successful new exploration businesses in Africa, Europe and South America. He has significant technical and commercial expertise in the petroleum systems of Africa, the North Sea, Norway, onshore UK & Europe, South America, the South Atlantic, Middle East, Asia, India, Australia and the USA. He is a graduate and Associate of the Royal School of Mines, Imperial College, London, a Fellow of the Geological Society of London and a member of the American Association of Petroleum Geologists.

Kiran Morzaria, Finance Director

Kiran Morzaria holds a Bachelor of Engineering (Industrial Geology) from the Camborne School of Mines and an MBA (Finance) from CASS Business School. He has extensive experience in the mineral resource industry working in both operational and management roles. Mr Morzaria spent the first four years of his career in exploration, mining and civil engineering. He then obtained his MBA and became the Finance Director of Vatukoula Gold Mines Plc for seven years. He has served as a director of a number of public companies in both an executive and non-executive capacity; he is a non-executive director of European Metals Holdings Ltd and the Chief Executive Officer for Cadence Minerals Plc.

Nicholas Mardon Taylor, Non-Executive Director

Nicholas Mardon Taylor served as the Chief Financial Officer of Hurricane Energy PLC from May 2012 until January 2016. He has worked in the oil industry for over 35 years, his first involvement in the North Sea being in the early licensing rounds. He was with Hurricane from 2005 to January 2016 when he was the Company's first CFO and was subsequently responsible for the Company's Environmental Management System.

CORPORATE GOVERNANCE (CONTINUED)

Board and committee membership

Member	Board Title	Audit Committee Title	Remuneration Committee Title
Allen D Howard	Non-Executive Chairman	Member	Member
Stephen Sanderson	Chief Executive		
Kiran Morzaria	Finance Director		
Nicholas Mardon Taylor	Non Executive Director	Chairman	Chairman

The Board and its committees

Following the general meeting in July 2018, the Board of the Company consists of two Executive Directors and two Non-Executive Directors. The Non-Executive Directors are not considered independent under the FRC Code as they hold options in the Company. However, the Board considers that the Non-Executive Directors are independent of management under all other measures and is able to exercise independence of judgement.

The Board is responsible for formulating, reviewing and approving the Company's strategy, financial activities and operating performance. Day-to-day management is devolved to the executive directors, who are charged with consulting the Board on all significant financial and operational matters. The Board retains ultimate accountability for governance and is responsible for monitoring the activities of the executive team.

The roles of Chairman and Chief Executive are split in accordance with best practice. The Chairman has the responsibility of ensuring that the Board discharges its responsibilities. The Chairman is also responsible for the leadership and effective working of the Board, for setting the Board agenda, and ensuring that Directors receive accurate, timely and clear information. No one individual has unfettered powers of decision.

The two Executive Directors are the Chief Executive and Finance Director. The Chief Executive has the overall responsibility for creating, planning, implementing, and integrating the strategic direction of the Company. This includes responsibility for all components and departments of the business. The Chief Executive ensures that the organisation's leadership maintains constant awareness of both the external and internal competitive landscape, opportunities for expansion, customer base, markets, new industry developments and standards.

The Finance Director works alongside the Chief Executive and has overall control and responsibility for all financial aspects of company strategy. The Finance Director takes overall responsibility of the Company's accounting function and ensures that Company's financial systems are robust, compliant and support current activities and future growth. The Finance Director will coordinate corporate finance and manage company policies regarding capital requirements, debt, taxation, equity and acquisitions as appropriate.

The Board met regularly during the year. Tabulated below is the attendance of Board Members during the reporting period

Board Member	Meetings attended (out of a total possible)
Allen D Howard	8/14
Stephen Sanderson	14/14
Kiran Morzaria	14/14
Nicholas Mardon Taylor	8/14

CORPORATE GOVERNANCE (CONTINUED)

Audit committee

The audit committee consists of Nicholas Mardon Taylor (Chairman) and Allen D Howard. Prior to 1 August the audit committee consisted of Allen D Howard (Chairman) and Kiran Morzaria. As part of The Company's adoption of the QCA Code on 1 August 2018 it was resolved that the Audit Committee will consist of two Non-Executive Members of the Board. The Audit Committee meets at least twice a year.

Board member	Meetings attended (out of a total possible)
Allen D Howard	1/1
Nicholas Mardon Taylor (Appointed as Chairman 1 August 2018)	1/1

The principal duties and responsibilities of the Audit Committee include:

- Overseeing the Company's financial reporting disclosure process; this includes the choice of appropriate accounting policies
- Monitoring the Company's internal financial controls and assess their adequacy
- Reviewing key estimates, judgements and assumptions applied by management in preparing published financial statements
- Annually assessing the auditor's independence and objectivity
- Making recommendations in relation to the appointment, re-appointment and removal of the company's external auditor

Remuneration Committee

The Remuneration Committee consists of Nicholas Mardon Taylor (Chairman) and Allen D Howard. Prior to 1 August the Remuneration Committee consisted of Allen D Howard (Chairman) and Kiran Morzaria. As part of The Company's adoption of the QCA Code on 1 August it was resolved that the Remuneration Committee will consist of two Non-Executive Members of the Board. The Remuneration Committee meets at least twice a year.

Board Member	Meetings attended (out of a total possible)
Allen D Howard	1/1
Nicholas Mardon Taylor	1/1

The principal duties and responsibilities of the Remuneration Committee include:

- Setting the remuneration policy for all Executive Directors
- Recommending and monitoring the level and structure of remuneration for senior management
- Approving the design of, and determining targets for, performance related pay schemes operated by the company and approve the total annual payments made under such schemes
- Reviewing the design of all share incentive plans for approval by the board and shareholders

None of the Committee members have any personal financial interest (other than as shareholders and option holders), conflicts of interest arising from cross-directorships or day-to-day involvement in the running of the business. No director plays a part in any financial decision about his or her own remuneration.

Internal controls

The Board is responsible for establishing and maintaining the Company's system of internal controls and reviewing its effectiveness. The procedures that include financial, operational, health and safety, compliance matters and risk management (as detailed in the Strategic Report) are reviewed on an ongoing basis.

CORPORATE GOVERNANCE (CONTINUED)

The Company's internal control procedures include the following:

- Board approval for all significant projects, including corporate transactions and major capital projects;
- The Board receives and reviews regular reports covering both the technical progress of projects and the Company's financial affairs to facilitate its control;
- There is a comprehensive budgeting and planning system for all items of expenditure with an annual budget approved by the Board;
- The Company has in place internal control and risk management systems in relation to the Company's financial reporting process and the Company's process for preparing consolidated accounts. These systems include policies and procedures to ensure that adequate accounting records are maintained, and transactions are recorded accurately and fairly to permit the preparation of consolidated financial statements in accordance with IFRS; and
- The Audit Committee reviews draft annual and interim reports before recommending their publication to the Board. The Audit Committee discusses with the Finance Director, Financial Controller and external auditors the significant accounting policies, estimates and judgements applied in preparing these reports.

The internal control system can only provide reasonable and not absolute assurance against material misstatement or loss. The Board has considered the need for a separate internal audit function but, bearing in mind the present size and composition of the Company, does not consider it necessary at the current time.

UK Bribery Act

UKOG has reviewed the appropriate policies and procedures to ensure compliance with the UK Bribery Act. The Company continues actively to promote good practice throughout the Company and has initiated a rolling programme of anti-bribery and corruption training for all relevant employees.

Relations with shareholders

Communications with shareholders are considered important by the Directors. The primary contact with shareholders, investors and analysts is the Chief Executive. Other senior management, however, regularly speak to investors and analysts during the year.

Company circulars and press releases have also been issued throughout the year for the purpose of keeping investors informed about the Company's progress and in accordance with AIM regulations.

The Company also maintains a website (www.ukogplc.com) that is regularly updated and contains a wide range of information about the Company.

DIRECTORS' REMUNERATION REPORT

This report explains our remuneration policy for Directors and sets out how decisions regarding Directors' pay for the period under review have been taken.

Directors' remuneration policy

The Company's policy is to maintain levels of remuneration sufficient to attract, motivate and retain senior executives of the highest calibre who can deliver growth in shareholder value.

Executive Director remuneration currently consists of basic salary, pensions, annual bonus (based on annually set targets) and long-term incentives (to reward long term performance).

The Company seeks to strike an appropriate balance between fixed and performance-related reward so that the total remuneration package is structured to align a significant proportion to the achievement of performance targets, reinforcing a clear link between pay and performance. The performance targets for staff, senior executives and the Executive Director are each aligned to the key drivers of the business strategy, thereby creating a strong alignment of interest between staff, Executive Directors and shareholders.

The Remuneration Committee will continue to review the Company's remuneration policy and make amendments, as and when necessary, to ensure it remains fit for purpose and continues to drive high levels of executive performance and remains both affordable and competitive in the market.

Annual statement

During the year the Remuneration Committee determined that an annual cash bonus scheme should be adopted in line with market practice. The maximum bonus levels and proportion payable for targeted performance are considered in the light of market bonus levels for similar roles within the industry sector.

The bonus targets are operated under a balanced scorecard which focuses on a mixture of strategic and operation goals. The percentage of maximum bonus entitlement received is based on the achievement of individually challenging targets. The maximum potential bonus for Executive Directors is up to 100% of base salary.

During the year and as required under the Pensions Act of 2008 the Company implemented an automatic enrolment pension scheme and contributed up to 3% of executive directors qualifying earnings. During a review of option awards in September 2019 the Remuneration Committee approved the issue of options to Directors. Further details can be found below.

Remit of the Remuneration Committee

The remit of the Remuneration Committee is provided in the Corporate Governance section.

Share price movements during the year

The Company's share price as at 28 September 2019 was 1.10p per share. The highest price during the year was 2.08p per share and the lowest share price during the year was 0.83p per share

DIRECTORS' REMUNERATION REPORT (CONTINUED)

Current arrangement in financial year (Audited)

Executive Directors are employed under rolling contracts with notice periods of 12 months or less from the Company or the executive. The Non-Directors are employed under rolling contracts with notice period of three months, under which they are not entitled to any pension, benefits or bonuses.

The Directors' emoluments for the year were as follows:

		Year ended 30 September 2019				
		Salary	Bonus	Pension	Share Based Payments	Total
Director	Board Title	£'000	£'000	£'000	£'000	£'000
Allen D Howard	Non-Executive Chairman	60	-	-	29	89
Stephen Sanderson	Chief Executive	314	310	1	142	766
Kiran Morzaria	Finance Director	116	-	-	37	153
Nicholas Mardon Taylor	Non-Executive Director	55	-	-	23	78
Total Directors		545	310	1	231	1,086

		Year ended 30 September 2018				
		Salary	Bonus	Pension	Share Based Payments	Total
Director	Board Title	£'000	£'000	£'000	£'000	£'000
Allen D Howard	Non-Executive Chairman	43	-	-	-	43
Stephen Sanderson	Chief Executive	275	-	-	309	584
Kiran Morzaria	Finance Director	108	-	-	-	108
Nicholas Mardon Taylor*	Non-Executive Director	9	-	-	-	9
Total Directors		435	-	-	309	744

* Nicholas Mardon Taylor was appointed to the Board on 1 August 2018

As at 30 September 2019, the outstanding long-term incentives, in the form of options, held by the Directors who served during the period are set out in the table below.

	At 1 October 2018	Issued during the year	lapsed / exercised during the year	At 30 September 2019	Exercise price	Date from which exercisable	Expiry date
Share options	No. million	No. million	No. million	No. million	£		
Stephen Sanderson	25	-	-	25	0.0040	21/01/2015	31/12/2019
Stephen Sanderson	35	-	(35)	-	0.0182	28/09/2016	28/09/2019
Stephen Sanderson	25	-	-	25	0.0115	25/05/2017	24/05/2022
Stephen Sanderson	-	25	-	25	0.0130	27/09/2019	25/09/2024
Total	85	25	(35)	75			

DIRECTORS' REMUNERATION REPORT (CONTINUED)

	At 1 October 2018	Issued during the year	lapsed / exercised during the year	At 30 September 2019	Exercise price	Date from which exercisable	Expiry date
Share options	No. million	No. million	No. million	No. million	£		
Kiran Morzaria	20			20.0	0.0115	25/05/2017	24/05/2022
		6.5	-	6.5	0.0130	27/09/2019	25/09/2024
Total	20	6.5		26.5			

	At 1 October 2018	Issued during the year	lapsed / exercised during the year	At 30 September 2019	Exercise price	Date from which exercisable	Expiry date
Share options	No. Million	No. million	No. million	No. million	£		
Allen Howard	10	-	-	10	0.0115	25/05/2017	24/05/2022
		5	-	5	0.0130	27/09/2019	25/09/2024
Total	10	5	-	15			

	At 1 October 2018	Issued during the year	lapsed / exercised during the year	At 30 September 2019	Exercise price	Date from which exercisable	Expiry date
Share options	No. million	No. million	No. million	No. million	£		
Nicholas Mardon Taylor	-	4	-	4	0.0130	27/09/2019	25/09/2024
Total	-	4	-	4			

REPORT OF THE DIRECTORS

The Directors present their annual report together with the audited consolidated financial statements of the Group for the Year Ended 30 September 2019.

Business review and future developments

A review of the business and future developments are outlined in the Strategic Report.

Principal activity and business review

The principal activity of the Group is exploring for, appraising and developing oil and gas assets.

Results and dividends

Loss on ordinary activities of the Group after taxation amounted to £5,394,000 (2018: Loss £16,747,000). The Directors do not recommend the payment of a dividend (2018: £nil). The Company has no plans to adopt a dividend policy in the immediate future.

Principal risks and uncertainties

Information of the principal risks and uncertainties facing the Group is included in the Principal Risks and Uncertainties section of the Strategic Report.

Financial risk management objectives and policies

The Group's principal financial instruments are trade receivables, trade payables and cash at bank, and borrowings. The main purpose of these financial instruments is to fund the Group's operations.

It is, and has been throughout the period under review, the Group's policy that no trading in financial instruments shall be undertaken. The main risk arising from the Group's financial instruments is liquidity risk. The Board reviews and agrees policies for managing this risk and this is summarised below.

Liquidity risk

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of equity and its cash resources. Further details of this are provided in the principal accounting policies, headed 'going concern'.

Key Performance Indicators

During the reporting period the Group readmitted as an operating company and adopted Key Performance Indicators, which are detailed in the Key Performance Indicator section of the Strategic Report.

Going Concern

The Directors note the substantial losses that the Group has made for the year ended 30 September 2019. The Directors have prepared cash flow forecasts for the period ending 31 March 2021, which takes into account anticipated costs savings, the current forward curve of Brent crude oil and external funding. In addition, within the forecasts, the Group has delayed its capital expenditure programme across its assets as the effects of Covid-19 have significantly constrained the supply of specialist oil sector services, equipment and civil engineering activities.

The cost structure of the Group comprises a high proportion of discretionary spend and therefore in the event that cash flows become constrained, costs can be quickly reduced to enable the Group to operate within its available funding.

The oil price assumptions within the cash flow forecasts are based on forward rates. However, given the current effects of Covid-19 and the "OPEC+" meeting on 5/6 March 2020, there is a high degree of uncertainty around these forward rates.

These forecasts demonstrate that the Group has sufficient cash funds available to allow it to continue in business for a period of at least twelve months from the date of approval of these financial statements. Accordingly, the financial statements have been prepared on a going concern basis.

REPORT OF THE DIRECTORS (CONTINUED)

Events after the Reporting Period

Events after the Reporting Period are outlined in Note 26 to the Financial Statements.

Corporate governance

Information in relation to the Corporate Governance of the Group is contained within the Corporate Governance Section of the Strategic Report.

Suppliers' payment policy

The Group's policy is to agree terms and conditions with suppliers in advance; payment is then made in accordance with the agreement provided the supplier has met the terms and conditions. Suppliers are typically paid within 30 days of issue of invoice.

Charitable contributions

During the year the Group made charitable donations amounting to £Nil (2018 - £Nil).

Substantial shareholdings

As at 11 March 2020, the Company had been notified of the following substantial shareholdings in the ordinary share capital:

Shareholder	Number of Ordinary Shares	Holding %
Hargreaves Lansdown (Nominees) Limited	851,982,277	11.39%
Barclays Direct Investing Nominees Limited	535,267,401	7.16%
Hargreaves Lansdown (Nominees) Limited	527,749,241	7.06%
HSDL Nominees Limited	505,619,094	6.76%
Interactive Investor Services Nominees Limited	503,911,804	6.74%
Interactive Investor Services Nominees Limited	455,073,765	6.08%
Hargreaves Lansdown (Nominees) Limited	439,767,127	5.88%
HSDL Nominees Limited	423,990,782	5.67%
Vidacos Nominees Limited	357,448,088	4.78%
HSBC Client Holdings Nominee (UK) Limited	277,188,402	3.71%
Forest Nominees Limited	250,000,000	3.34%
HSBC Global Custody Nominee (UK) Limited	224,294,117	3.00%

Current Board & Directors Interests

Allen D Howard	Non-Executive Chairman
Stephen Sanderson	Chief Executive Officer
Kiran Morzaria	Finance Director
Nicholas Mardon Taylor	Non-Executive Director (Appointed 1 August 2018)

The directors hold options over to purchase new ordinary shares in the Company, details of which are specified in the Remuneration Report on page 25 to 27. In addition, Kiran Morzaria holds 4,508,178 ordinary shares in the Company.

Auditor

A resolution to reappoint Chapman Davis LLP as auditor will be proposed at the forthcoming Annual General Meeting ("AGM").

Annual General Meeting

Notice of the forthcoming Annual General Meeting will be enclosed separately.

REPORT OF THE DIRECTORS (CONTINUED)

Statement of Directors' responsibilities

The Directors are responsible for preparing the annual report and financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare consolidated financial statements for each financial year. The Directors have prepared the consolidated accounts in accordance with International Financial Reporting Standards as adopted by the EU ("adopted IFRS"). The consolidated financial statements are required by law to give a true and fair view of the state of affairs of the Group and Company and of the profit or loss for that period. In preparing these financial statements, the Directors are required to:

- Select suitable accounting policies and then apply them consistently;
 - Make judgements and estimates that are reasonable and prudent;
 - State whether applicable IFRS's have been followed, subject to any material departures disclosed and explained in the financial statements; and
- Prepare the consolidated financial statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

The Directors are responsible for keeping adequate accounting records, which disclose with reasonable accuracy at any time the financial position of the Group and to enable them to ensure that the consolidated financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. The Company's website is maintained in accordance with AIM Rule 26.

Legislation in the United Kingdom governing the preparation and dissemination of consolidated financial statements may differ from legislation in other jurisdictions.

Statement as to disclosure of information to the auditor

As at the date of this report the serving directors confirm that:

- So far as each Director is aware, there is no relevant audit information of which the Group's auditors are unaware, and
- They have taken all the steps that they ought to have taken as Directors' in order to make themselves aware of any relevant audit information and to establish that the Group's auditor are aware of that information.

ON BEHALF OF THE BOARD

Stephen Sanderson
Director
31 March 2020



REPORT OF THE INDEPENDENT AUDITOR TO THE MEMBERS OF UK OIL & GAS PLC

OPINION

We have audited the financial statements of UK Oil & Gas PLC (the 'Parent Company') and its subsidiaries (the 'Group') for the year ended 30 September 2019 which comprise the consolidated statement of comprehensive income, the consolidated and company statements of financial position, the consolidated and company's statements of changes in equity, the consolidated and company's statements of cash flows 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 group and parent company financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 30 September 2019 and of the Group's losses for the year then ended;
- the Group and Parent Company 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 in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

CONCLUSIONS RELATING TO GOING CONCERN

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

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

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, 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) that we identified. These matters included 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. This is not a complete list of all risks identified by our audit.

REPORT OF THE INDEPENDENT AUDITOR TO THE MEMBERS OF UK OIL & GAS PLC

We have determined the matters described below to be the key audit matters to be communicated in our report.

CARRYING VALUE OF EXPLORATION AND EVALUATION ASSETS AND GOODWILL

The Group's exploration and evaluation assets ('E&E assets') and related goodwill represent the most significant assets on its statement of financial position totalling £27.2m and £17.4m respectively as at 30 September 2019.

Management and the Board are required to ensure that only costs which meet the IFRS criteria of an asset and accord with the Group's accounting policy are capitalised within the E&E asset. In addition, in accordance with the requirements of IFRS 6 'Exploration for and Evaluation of Mineral Resources' ('IFRS 6') Management and the Board are required to assess whether there is any indication of material impairment of the E&E assets or the related goodwill.

Given the significance of the E&E assets and related goodwill on the Group's statement of financial position and the significant management judgement involved in the determination of the capitalisation of costs within the carrying values of the E&E asset together with the assessment of the carrying values of both E&E assets and goodwill there is an increased risk of material misstatement.

How the Matter was addressed in the Audit

The procedures included, but were not limited to, assessing and evaluating management's assessment of whether any impairment indicators in accordance with IFRS 6 have been identified across the Group's exploration projects, the indicators being:

- Expiring, or imminently expiring, licence and/or exploration rights
- A lack of budgeted or planned exploration and evaluation spend on the licence areas
- Discontinuation of, or a plan to discontinue, exploration activities in the licence areas
- Insufficient data exists to suggest the carrying value of exploration and evaluation assets and the related goodwill is likely be recovered in full through successful development or sale.

In addition, we obtained the capital expenditure budget for 2020 and assessed whether there is reasonable forecasted levels of expenditure to confirm that Management are committed to the individual projects. We also reviewed AIM announcements and Board meeting minutes for the year and subsequent to year end for commentary on exploration activity to identify any possible indicators of impairment.

We also assessed the related disclosures included in the financial statements.

Our audit procedures in relation to these matters were designed in the context of our audit opinion as a whole. They were not designed to enable us to express an opinion on these matters individually and we express no such opinion.

MATERIALITY

In planning and performing our audit we applied the concept of materiality. An item is considered material if it could reasonably be expected to change the economic decisions of a user of the financial statements. We used the concept of materiality to both focus our testing and to evaluate the impact of misstatements identified. Based on professional judgement, we determined overall materiality for the financial statements as a whole to be £540,000, based on a 1% percentage consideration of the group total assets and 10% consideration of the group loss for the year.

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.

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.

REPORT OF THE INDEPENDENT AUDITOR TO THE MEMBERS OF UK OIL & GAS PLC

If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

OPINIONS ON OTHER MATTERS PRESCRIBED BY THE COMPANIES ACT 2006

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

- the information given in the Strategic Report and the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Directors' report have been prepared in accordance with applicable legal requirements.

MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

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

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

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

RESPONSIBILITIES OF DIRECTORS

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

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

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) or ISA IAASB 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 at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

REPORT OF THE INDEPENDENT AUDITOR TO THE MEMBERS OF UK OIL & GAS PLC

USE OF OUR REPORT

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.



Rowan Palmer

(Senior Statutory Auditor)

For and on behalf of Chapman Davis LLP, Statutory Auditor

London

Chapman Davis LLP is a limited liability partnership registered in England and Wales (with registered number OC306037).

Date: 31 March 2020

FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR YEAR ENDED 30 September 2019

	Notes	30 Sep 2019 £'000	30 Sep 2018 £'000
Revenue		213	225
Cost of sales		(97)	(97)
Gross profit/(loss)		116	128
Operating expenses			
Administrative expenses		(4,166)	(3,244)
Foreign exchange gains/(losses)		(45)	12
Share based payments expense	22	(693)	(655)
Operating (loss)	7	(4,788)	(3,759)
Gain on settlements of financial instruments			-
Finance Income		1	198
Finance Cost	9	(607)	(510)
Share of associate loss	15	-	(419)
Decommissioning Expense	21	-	(697)
Exploration Write-off	12	-	(11,560)
(Loss) before taxation		(5,394)	(16,747)
Taxation	10	-	-
Retained (Loss) for the year		(5,394)	(16,747)
Retained (loss) attributable to:			
Equity holders of the Parent		(5,394)	(16,747)
Non-Controlling Interests		-	-
		(5,394)	(16,747)

There are no other comprehensive income or expenses during the two reported periods to disclose.

(Loss) per share		Pence	Pence
Basic and diluted	11	(0.09)	(0.41)

The accompanying accounting policies and notes form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 September 2019

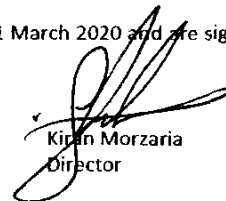
	Notes	2019 £'000	2018 £'000
Assets			
Non-current assets			
Exploration & evaluation assets	12	27,224	22,644
Decommissioning Asset	12	354	362
Goodwill	12	17,443	6,290
Oil & Gas properties	13	1,434	1,449
Property, Plant & Equipment	13	193	260
Investment in associate	15	-	-
Total non-current assets		46,648	31,005
Current assets			
Inventory	16	1	5
Trade and other receivables	17	1,179	1,215
Cash and cash equivalents	18	6,892	12,427
Total current assets		8,072	13,647
Total Assets		54,720	44,652
Current liabilities			
Trade and other payables	19	(6,026)	(2,990)
Borrowings	20	(7,473)	(3,533)
Total current liabilities		(13,499)	(6,523)
Non-current Liabilities			
Provisions	21	(427)	(1,341)
Total non-current liabilities		(427)	(1,341)
Total liabilities		(13,926)	(7,864)
Net Assets		40,794	36,788
Equity			
Share capital	22	12,250	12,141
Share premium account		85,773	75,799
Share based payment reserve	23	1,811	1,590
Accumulated losses		(59,153)	(53,393)
		40,681	36,137
Non-controlling interest		113	651
Total shareholders' equity		40,794	36,788

These financial statements were approved by the Board of Directors on 31 March 2020 and are signed on its behalf by:

Stephen Sanderson
Director



Kiran Morzaria
Director



The accompanying accounting policies and notes form an integral part of these financial statements.

COMPANY STATEMENT OF FINANCIAL POSITION
AS AT 30 September 2019

	Notes	2019 £'000	2018 £'000
Assets			
Non-current assets			
Exploration & evaluation assets	12	2,301	1,400
Investment in subsidiary companies	14	26,206	12,785
Property, Plant and Equipment	13	108	-
Total non-current assets		28,615	14,185
Current assets			
Trade and other receivables	17	27,284	23,612
Cash and cash equivalents	18	6,196	9,160
Total current assets		33,480	32,772
Total Assets		62,095	46,957
Current liabilities			
Trade and other payables	19	(4,430)	(663)
Borrowings	20	(4,500)	-
Total Current Liabilities		(8,930)	(663)
Total liabilities		(8,930)	(663)
Net Assets		53,165	46,294
Shareholders' Equity			
Share capital	22	12,250	12,141
Share premium account		85,773	75,799
Share Based Payment Reserve	23	1,811	1,590
Accumulated losses		(46,669)	(43,236)
Total shareholders' equity		53,165	46,294

These financial statements were approved by the Board of Directors on 31 March 2020 and are signed on its behalf by:

Stephen Sanderson
Director

Kiran Morzaria
Director

The accompanying accounting policies and notes form an integral part of these financial statements.

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 September 2019**

	Share capital £'000	Share premium £'000	Share based payment reserve £'000	Accumulated losses £'000	Total £'000	Non Controlling Interests £'000	Total £'000
Balance at 1 October 2017	11,938	46,939	1,172	(36,883)	23,166	-	23,166
Loss for the year	-	-	-	(16,747)	(16,747)	-	(16,747)
Total comprehensive income	-	-	-	(16,747)	(16,747)	-	(16,747)
Issue of shares	203	29,627	-	-	29,830	-	29,830
Cost of share issue	-	(767)	-	-	(767)	-	(767)
Share option exercised	-	-	(105)	105	-	-	-
Share option expired	-	-	(132)	132	-	-	-
Share based payments	-	-	655	-	655	-	655
Total transactions with owners	203	28,860	418	237	29,718	-	29,718
Non Controlling interest on acquisition of subsidiary	-	-	-	-	-	651	651
Balance at 30 September 2018	12,141	75,799	1,590	(53,393)	36,137	651	36,788
Loss for the year	-	-	-	(5,394)	(5,394)	-	(5,394)
Movement on reserves re acquisitions	-	-	-	(838)	(838)	(538)	(1,376)
Total comprehensive income	-	-	-	(6,232)	(6,232)	(538)	(6,770)
Issue of shares	109	10,183	-	-	10,292	-	10,292
Cost of share issue	-	(209)	-	-	(209)	-	(209)
Share option expired	-	-	(472)	472	-	-	-
Share based payments	-	-	693	-	693	-	693
Total transactions with owners	109	9,974	221	-	4,544	(538)	4,007
Balance at 30 September 2019	12,250	85,773	1,811	(59,153)	40,681	113	40,795

**COMPANY STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 September 2019**

	Share capital £'000	Share premium £'000	Share based payment reserve £'000	Accumulated losses £'000	Total £'000
Balance at 1 October 2017	11,938	46,939	1,172	(37,624)	22,425
Loss for the year	-	-	-	(5,849)	(5,849)
Total comprehensive income	-	-	-	(5,849)	(5,849)
Issue of shares	203	29,627	-	-	29,830
Cost of share issue	-	(767)	-	-	(767)
Share option exercised	-	-	(105)	105	-
Share option expired	-	-	(132)	132	-
Share based payments	-	-	655	-	655
Total transactions with owners	203	28,860	418	237	29,718
Balance at 30 September 2018	12,141	75,799	1,590	(43,236)	46,294
Loss for the year	-	-	-	(3,905)	(3,905)
Total comprehensive income	-	-	-	(3,905)	(3,905)
Issue of shares	109	10,183	-	-	10,292
Cost of share issue	-	(209)	-	-	(209)
Share option expired	-	-	(472)	472	-
Share based payments	-	-	693	-	693
Total transactions with owners	109	9,974	221	472	10,776
Balance at 30 September 2019	12,250	85,773	1,811	(46,669)	53,165

**CONSOLIDATED STATEMENT OF CASH FLOW
FOR THE YEAR ENDED 30 September 2019**

	2019 £'000	2018 £'000
Cash flows from operating activities		
Loss from operations	(4,788)	(3,759)
Depletion & impairment	228	285
Share based payment charge	693	655
Cash movement on provisions	(936)	-
(Increase) in inventories	4	(1)
(Increase) / decrease in trade & other receivables	36	(1,702)
Increase / (decrease) in trade & other payables	(964)	(2,901)
Net cash (outflow) / inflow from operating activities	(5,726)	(7,423)
Cash flows from investing activities		
Expenditures on exploration & evaluation assets	(3,125)	(5,237)
Expenditures on oil & gas properties	-	(36)
Expenditures on plant, property & equipment	(128)	(139)
Payments for acquisition of subsidiary	(5,060)	-
Net cash acquired on acquisition of subsidiary	6	1,885
Net cash (outflow) from investing activities	(8,307)	(3,527)
Cash flows from financing activities		
Proceeds from issue of share capital	3,520	12,906
Share issue costs	(209)	(767)
Proceeds from convertible loan financing	5,500	10,000
Convertible loan financing fees	(313)	(510)
Net cash inflow from financing activities	8,498	21,629
Net change in cash and cash equivalents	(5,535)	10,679
Cash and cash equivalents at beginning of the period	12,427	1,748
Cash and cash equivalents at end of the period	6,892	12,427

**COMPANY STATEMENT OF CASH FLOW
FOR THE YEAR ENDED 30 September 2019**

	2019	2018
	£'000	£'000
Cash flows from operating activities		
Operating profit / (loss)	(4,239)	(3,694)
Share based payment charge	693	655
Decrease in trade & other receivables	217	27
Increase in trade & other payables	233	299
Net cash (outflow) from operating activities	(3,096)	(2,713)
Cash flows from investing activities		
Expenditures on exploration & evaluation assets	(288)	(517)
Expenditures on property, plant & equipment	(116)	-
Loan advanced to subsidiary	(3,687)	(9,738)
Payments on acquisition of subsidiary	(4,276)	(1,215)
Net cash (outflow) from investing activities	(8,367)	(11,470)
Cash flows from financing activities		
Proceeds from issue of share capital	3,520	12,906
Share issue costs	(209)	(767)
Proceeds from convertible loan financing	5,500	10,000
Convertible loan financing fees	(313)	(510)
Net cash inflow from financing activities	8,498	21,629
Net change in cash and cash equivalents	(2,964)	7,446
Cash and cash equivalents at beginning of the period	9,160	1,714
Cash and cash equivalents at end of the period	6,196	9,160

NOTES TO THE FINANCIAL STATEMENTS

1. Corporate Information

The consolidated financial statements of UK Oil & Gas PLC and its subsidiaries (collectively, the Group), for the year ended 30 September 2019 were authorised for issue in accordance with a resolution of the directors on 31 March 2020. UK Oil & Gas PLC (the Company or the parent) is a company incorporated in the United Kingdom, and whose shares are publicly traded. The Company's shares are listed on the AIM market of the London Stock Exchange. The registered office is located at The Broadgate Towers, 20 Primrose Street, London EC2A 2EW. On 31 July 2018, the Company changed its name from UK Oil & Gas Investments PLC to UK Oil & Gas PLC by way of a statutory notice of change filed at Companies House.

The Group is principally engaged in oil production and oil and gas exploration and evaluation (see Note 6). Information on the Group's structure is provided in Note 13 and information on other related parties is provided in Note 28.

2. Principal Accounting Policies

Basis of preparation

The consolidated financial statements of the Group have been prepared under the historical cost convention and in accordance with International Financial Reporting Standards as adopted by the EU ("adopted IFRS").

The accounting policies have been applied consistently throughout the preparation of these financial statements, the financial report is presented in Pound Sterling (£) and all values are rounded to the nearest thousand pounds (£'000) unless otherwise stated. The consolidated financial statements provide comparative information in respect of the previous period.

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at 30 September 2019. Subsidiaries are all entities (including structured entities) over which the group has control. Control is achieved when the group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity.

Specifically, the Group controls an entity if, and only if, the Group has:

- Power over the entity (i.e. existing rights that give it the current ability to direct the relevant activities of the entity)
- Exposure, or rights, to variable returns from its involvement with the entity
- The ability to use its power over the investee to affect its returns

The Group re-assesses whether or not it controls an entity if facts and circumstances indicate that there are changes to one or more of the three above elements of control. Subsidiaries are fully consolidated from the date at which the Group gains control until the date the Group ceases to control the subsidiary.

All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the group. Non-controlling interests in the results and equity of subsidiaries are shown separately in the consolidated statement of profit or loss, statement of comprehensive income, statement of changes in equity and balance sheet respectively.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Summary of significant accounting policies

a) Business combinations and goodwill

The acquisition method of accounting is used to account for all business combinations, regardless of whether equity instruments or other assets are acquired. The consideration transferred for the acquisition of a subsidiary comprises the:

- fair values of the assets transferred
- liabilities incurred to the former owners of the acquired business
- equity interests issued by the group
- fair value of any asset or liability resulting from a contingent consideration arrangement, and
- fair value of any pre-existing equity interest in the subsidiary.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date. The group recognises any non-controlling interest in the acquired entity on an acquisition-by-acquisition basis either at fair value or at the non-controlling interest's proportionate share of the acquired entity's net identifiable assets. Acquisition-related costs are expensed as incurred.

Where settlement of any part of the consideration is deferred or contingent, the amounts payable in the future are recognised at their fair value at the acquisition date. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

Contingent consideration is classified either as equity or a financial liability. Amounts classified as a financial liability are subsequently remeasured to fair value with changes in fair value recognised in profit or loss. Contingent consideration classified as equity is not remeasured and its subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost (being the excess of the consideration transferred and the amount recognised for non-controlling interests and any previous interest held of the net identifiable assets acquired and liabilities assumed). If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the difference is recognised in profit or loss.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date. Any gains or losses arising from such remeasurement are recognised in profit or loss.

b) Investment in associates and joint ventures

Associates are entities over which the group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control. The considerations made in determining significant influence or joint control are similar to those necessary to determine control over subsidiaries. Investments in associates are accounted for using the equity method of accounting.

Under the equity method of accounting, the investment is initially recognised at cost and adjusted thereafter to recognise the group's share of the post-acquisition profits or losses of the investee in profit or loss, and the group's share of movements in other comprehensive income of the investee in other comprehensive income. Dividends received or receivable from associates and joint ventures are recognised as a reduction in the carrying amount of the investment.

When the group's share of losses in an equity-accounted investment equals or exceeds its interest in the entity, including any other unsecured long-term receivables, the group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the other entity.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Unrealised gains on transactions between the group and its associates and joint ventures are eliminated to the extent of the group's interest in these entities. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of equity accounted investees have been changed where necessary to ensure consistency with the policies adopted by the group.

The carrying amount of equity-accounted investments is tested for impairment at each reporting date.

a) Revenue

Revenue is measured by reference to the fair value of consideration received or receivable by the Group for services provided, excluding VAT and trade discounts.

Revenue from the sale of oil and petroleum products is recognised when control passes to the customer. This generally occurs when the product is physically transferred into a vessel, pipe or other delivery mechanism.

Revenue from the production of oil, in which the Group has an interest with other producers, is recognised based on the Group's working interest and the terms of the relevant production sharing contracts. Differences between oil lifted and sold and the Group's share of production are not significant.

Revenues from the sale of oil produced as a by-product of the evaluation or "testing" phase of a well are offset against the cost of the intangible asset that is being created. This can be seen by reference to Note x.

b) Oil & Gas properties (OGP), Exploration & Evaluation assets

Oil and natural gas exploration, evaluation and development expenditure is accounted for using the successful efforts method of accounting.

(i) Pre-licence costs

Pre-licence costs are expensed in the period in which they are incurred.

(ii) Licence and property acquisition costs

Exploration licence and leasehold property acquisition costs are capitalised in intangible assets. Licence costs paid in connection with a right to explore in an existing exploration area are capitalised and amortised over the term of the permit.

Licence and property acquisition costs are reviewed at each reporting date to confirm that there is no indication that the carrying amount exceeds the recoverable amount. This review includes confirming that exploration drilling is still under way or firmly planned, or that it has been determined, or work is under way to determine that the discovery is economically viable based on a range of technical and commercial considerations and that sufficient progress is being made on establishing development plans and timing.

If no future activity is planned or the licence has been relinquished or has expired, the carrying value of the licence and property acquisition costs are written off through the statement of profit or loss and other comprehensive income. Upon recognition of proved reserves and internal approval for development, the relevant expenditure is transferred to oil and gas properties.

(iii) Exploration and evaluation costs

Exploration and evaluation activity involves the search for hydrocarbon resources, the determination of technical feasibility and the assessment of commercial viability of an identified resource.

Once the legal right to explore has been acquired, costs directly associated with an exploration well are capitalised as exploration and evaluation intangible assets until the drilling of the well is complete and the results have been evaluated. These costs include directly attributable employee remuneration, materials and fuel used, rig costs and payments made to contractors.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

If no potentially commercial hydrocarbons are discovered, the exploration asset is written off through the statement of profit or loss and other comprehensive income as a dry hole. If extractable hydrocarbons are found and, subject to further appraisal activity (e.g., the drilling of additional wells), it is probable that they can be commercially developed, the costs continue to be carried as an intangible asset while sufficient/continued progress is made in assessing the commerciality of the hydrocarbons. Revenues generated from the sale of hydrocarbons during this phase are offset against the cost of the intangible asset.

Costs directly associated with appraisal activity undertaken to determine the size, characteristics and commercial potential of a reservoir following the initial discovery of hydrocarbons, including the costs of appraisal wells where hydrocarbons were not found, are initially capitalised as an intangible asset.

All such capitalised costs are subject to technical, commercial and management review, as well as review for indicators of impairment at least once a year. This is to confirm the continued intent to develop or otherwise extract value from the discovery. When this is no longer the case, the costs are written off through the statement of profit or loss and other comprehensive income.

When proved reserves of oil and natural gas are identified and development is sanctioned by management, the relevant capitalised expenditure is first assessed for impairment and (if required) any impairment loss is recognised, then the remaining balance is transferred to oil and gas properties. Other than licence costs, no amortisation is charged during the exploration and evaluation phase.

(iv) Development costs

Expenditure on the construction, installation or completion of infrastructure facilities such as platforms, pipelines and the drilling of development wells, including unsuccessful development or delineation wells, is capitalised within oil and gas properties.

c) Oil and gas properties and other property, plant and equipment

(i) Initial recognition

Oil and gas properties and other property, plant and equipment are stated at cost, less accumulated depreciation and accumulated impairment losses.

The initial cost of an asset comprises its purchase price or construction cost, any costs directly attributable to bringing the asset into operation, the initial estimate of the decommissioning obligation and, for qualifying assets (where relevant), borrowing costs. The purchase price or construction cost is the aggregate amount paid and the fair value of any other consideration given to acquire the asset. The capitalised value of a finance lease is also included within property, plant and equipment.

When a development project moves into the production stage, the capitalisation of certain construction/development costs ceases, and costs are either regarded as part of the cost of inventory or expensed, except for costs which qualify for capitalisation relating to oil and gas property asset additions, improvements or new developments.

(ii) Depreciation/amortisation

Oil and gas properties are depreciated/amortised on a unit-of-production basis over the total proved developed and undeveloped reserves of the field concerned, except in the case of assets whose useful life is shorter than the lifetime of the field, in which case the straight-line method is applied. Rights and concessions are depleted on the unit-of-production basis over the total proved developed and undeveloped reserves of the relevant area. The unit-of-production rate calculation for the depreciation/amortisation of field development costs takes into account expenditures incurred to date, together with sanctioned future development expenditure.

Other property, plant and equipment are generally depreciated on a straight-line basis over their estimated useful lives, which is between 2 and 10 years depending on the type of asset, and major inspection costs are amortised over three to five years, which represents the estimated period before the next planned major inspection.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Property, plant and equipment held under finance leases are depreciated over the shorter of lease term and estimated useful life. An item of property, plant and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal.

Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of profit or loss and other comprehensive income when the asset is derecognised. The asset's residual values, useful lives and methods of depreciation/amortisation are reviewed at each reporting period and adjusted prospectively, if appropriate.

(iii) Major maintenance, inspection and repairs

Expenditure on major maintenance refits, inspections or repairs comprises the cost of replacement assets or parts of assets, inspection costs and overhaul costs. Where an asset, or part of an asset that was separately depreciated and is now written off is replaced and it is probable that future economic benefits associated with the item will flow to the Group, the expenditure is capitalised.

Where part of the asset replaced was not separately considered as a component and therefore not depreciated separately, the replacement value is used to estimate the carrying amount of the replaced asset(s) and is immediately written off. Inspection costs associated with major maintenance programmes are capitalised and amortised over the period to the next inspection. All other day-to-day repairs and maintenance costs are expensed as incurred.

d) Provision for rehabilitation / decommissioning

The Group recognises a decommissioning liability where it has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount of obligation can be made.

The obligation generally arises when the asset is installed, or the ground/environment is disturbed at the field location. When the liability is initially recognised, the present value of the estimated costs is capitalised by increasing the carrying amount of the related oil and gas assets to the extent that it was incurred by the development/construction of the field. Any decommissioning obligations that arise through the production of inventory are expensed when the inventory item is recognised in cost of goods sold.

Changes in the estimated timing or cost of decommissioning are dealt with prospectively by recording an adjustment to the provision and a corresponding adjustment to oil and gas assets.

Any reduction in the decommissioning liability and, therefore, any deduction from the asset to which it relates, may not exceed the carrying amount of that asset. If it does, any excess over the carrying value is taken immediately to the statement of profit or loss and other comprehensive income.

If the change in estimate results in an increase in the decommissioning liability and, therefore, an addition to the carrying value of the asset, the Group considers whether this is an indication of impairment of the asset as a whole, and if so, tests for impairment. If, for mature fields, the estimate for the revised value of oil and gas assets net of decommissioning provisions exceeds the recoverable value, that portion of the increase is charged directly to expense. Over time, the discounted liability is increased for the change in present value based on the discount rate that reflects current market assessments and the risks specific to the liability.

The periodic unwinding of the discount is recognised in the statement of profit or loss and other comprehensive income as a finance cost. The Company recognises neither the deferred tax asset in respect of the temporary difference on the decommissioning liability nor the corresponding deferred tax liability in respect of the temporary difference on a decommissioning asset.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

e) Taxation

Current tax is the tax currently payable based on taxable profit for the year.

Deferred income taxes are calculated using the liability method on temporary differences. Deferred tax is generally provided on the difference between the carrying amounts of assets and liabilities and their tax bases. However, deferred tax is not provided on the initial recognition of goodwill, nor on the initial recognition of an asset or liability unless the related transaction is a business combination or affects tax or accounting profit.

Deferred tax on temporary differences associated with shares in subsidiaries and joint ventures is not provided if reversal of these temporary differences can be controlled by the Company and it is probable that reversal will not occur in the foreseeable future. In addition, tax losses available to be carried forward as well as other income tax credits to the Company are assessed for recognition as deferred tax assets.

Deferred tax liabilities are provided in full, with no discounting. Deferred tax assets are recognised to the extent that it is probable that the underlying deductible temporary differences will be able to be offset against future taxable income. Current and deferred tax assets and liabilities are calculated at tax rates that are expected to apply to their respective period of realisation, provided they are enacted or substantively enacted at the balance sheet date.

Changes in deferred tax assets or liabilities are recognised as a component of tax expense in the income statement, except where they relate to items that are charged or credited directly to equity in which case the related deferred tax is also charged or credited directly to equity.

f) Financial assets

Financial assets are divided into the following categories: loans and receivables and available-for-sale financial assets. Financial assets are assigned to the different categories by management on initial recognition, depending on the purpose for which they were acquired, and are recognised when the Group becomes party to contractual arrangements. Both loans and receivables and available for sale financial assets are initially recorded at fair value.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Trade, most other receivables and cash and cash equivalents fall into this category of financial assets. Loans and receivables are measured subsequent to initial recognition at amortised cost using the *effective interest method, less provision for impairment*. Any change in their value through impairment or reversal of impairment is recognised in the income statement.

Provision against trade receivables is made when there is objective evidence that the Group will not be able to collect all amounts due to it in accordance with the original terms of those receivables. The amount of the write-down is determined as the difference between the asset's carrying amount and the present value of estimated future cash flows.

A financial asset is derecognised only where the contractual rights to the cash flows from the asset expire or the financial asset is transferred, and that transfer qualifies for derecognition. A financial asset is transferred if the contractual rights to receive the cash flows of the asset have been transferred or the Group retains the contractual rights to receive the cash flows of the asset but assumes a contractual obligation to pay the cash flows to one or more recipients.

A financial asset that is transferred qualifies for derecognition if the Group transfers substantially all the risks and rewards of ownership of the asset, or if the Group neither retains nor transfers substantially all the risks and rewards of ownership but does transfer control of that asset.

Derivative instruments are recorded at cost and adjust for their market value as applicable. They are assessed for any equity and debt component which is subsequently accounted for in accordance with IFRS's.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

g) Financial liabilities

Financial liabilities are obligations to pay cash or other financial assets and are recognised when the Group becomes a party to the contractual provisions of the instrument.

All financial liabilities initially recognised at fair value less transaction costs and thereafter carried at amortised cost using the effective interest method, with interest-related charges recognised as an expense in finance cost in the income statement. A financial liability is derecognised only when the obligation is extinguished, that is, when the obligation is discharged or cancelled or expires.

h) Impairment of assets

Goodwill and intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

i) Goodwill

Goodwill is measured as described in Business Combinations. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill is not amortised but it is tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired and is carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose. The units or groups of units are identified at the lowest level at which goodwill is monitored for internal management purposes, being the operating segments (note 2).

j) Inventories

Inventories are stated at the lower of cost and net realisable value. The cost of materials is the purchase cost, determined on first-in, first-out basis. The cost of crude oil and refined products is the purchase cost, the cost of refining, including the appropriate proportion of depreciation, depletion and amortisation and overheads based on normal operating capacity, determined on a weighted average basis. The net realisable value of crude oil and refined products is based on the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale.

k) Cash and Cash Equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, together with other short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

l) Share-Based Payments

The Group operates a number of equity-settled, share-based compensation plans, under which the entity receives services from employees as consideration for equity instruments (options) of the Company. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the options granted:

- Including any market performance conditions;
- Excluding the impact of any service and non-market performance vesting conditions (for example, profitability or sales growth targets, or remaining an employee of the entity over a specified time period; and
- Including the impact of any non-vesting conditions (for example, the requirement for employees to save).

Non-market vesting conditions are included in assumptions about the number of options that are expected to vest. The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied.

In addition, in some circumstances, employees may provide services in advance of the grant date, and therefore the grant-date fair value is estimated for the purposes of recognising the expense during the period between service commencement period and grant date.

At the end of each reporting period, the entity revises its estimates of the number of options that are expected to vest based on the non-market vesting conditions. It recognises the impact of the revision to original estimates, if any, in profit or loss, with a corresponding adjustment to equity.

When the options are exercised, the Company issues new shares. The proceeds received, net of any directly attributable transaction costs, are credited to share capital (nominal value) and share premium.

m) Equity

Equity comprises the following:

- "Share capital" representing the nominal value of equity shares.
- "Share premium" representing the excess over nominal value of the fair value of consideration received for equity shares, net of expenses of the share issue.
- "Share based payment reserve" represents the value of equity benefits provided to employees and directors as part of their remuneration and provided to consultants and advisors hired by the Group from time to time as part of the consideration paid.
- "Retained earnings" represents retained profits and (losses).

n) Foreign currencies

Transactions in foreign currencies are translated at the exchange rate ruling at the date of the transaction. Monetary assets and liabilities in foreign currencies are translated at the rates of exchange ruling at the balance sheet date. Non-monetary items that are measured at historical cost in a foreign currency are translated at the exchange rate at the date of the transaction. Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Any exchange differences arising on the settlement of monetary items or on translating monetary items at rates different from those at which they were initially recorded are recognised in the profit or loss in the period in which they arise. Exchange differences on non-monetary items are recognised in other comprehensive income to the extent that they relate to a gain or loss on that non-monetary item taken to other comprehensive income, otherwise such gains and losses are recognised in the income statement.

The Group and Company's functional currency and presentational currency is Sterling.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

o) Significant accounting judgements, estimates and assumptions

The preparation of the Group's consolidated financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the accompanying disclosures, and the disclosure of contingent liabilities at the date of the consolidated financial statements.

Estimates and assumptions are continuously evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

In particular, the Group has identified the following areas where significant judgements, estimates and assumptions are required. Further information on each of these areas and how they impact the various accounting policies are described below and also in the relevant notes to the financial statements. Changes in estimates are accounted for prospectively.

(i) Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, which have the most significant effect on the amounts recognised in the consolidated financial statements.

(i.a) Contingencies

Contingent liabilities may arise from the ordinary course of business in relation to claims against the Group, including legal, contractor, land access and other claims. By their nature, contingencies will be resolved only when one or more uncertain future events occur or fail to occur. The assessment of the existence, and potential quantum, of contingencies inherently involves the exercise of significant judgement and the use of estimates regarding the outcome of future events.

(i.b) Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Group based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market change or circumstances arising beyond the control of the Group. Such changes are reflected in the assumptions when they occur.

(i.c) Hydrocarbon reserve and resource estimates

Hydrocarbon reserves are estimates of the amount of hydrocarbons that can be economically and legally extracted from the Group's oil and gas properties. The Group estimates its reserves and resources based on information compiled by appropriately qualified persons relating to the geological and technical data on the size, depth, shape and grade of the hydrocarbon body and suitable production techniques and recovery rates.

Commercial reserves are determined using estimates of oil and gas in place, recovery factors and future commodity prices, the latter having an impact on the total amount of recoverable reserves and the proportion of the gross reserves which are attributable to the host government under the terms of the Production-Sharing Agreements.

Future development costs are estimated using assumptions as to the number of wells required to produce the commercial reserves, the cost of such wells and associated production facilities, and other capital costs. The current long-term Brent oil price assumption used in the estimation of reserves is US\$70/bbl. The carrying amount of oil and gas development and production assets at 30 September 2019 is shown in Note 9.

The Group estimates and reports hydrocarbon reserves in line with the principles contained in the SPE Petroleum Resources Management Reporting System (PRMS) framework. As the economic assumptions used may change and as additional geological information is obtained during the operation of a field, estimates of recoverable

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

reserves may change. Such changes may impact the Group's reported financial position and results, which include:

- The carrying value of exploration and evaluation assets; oil and gas properties; property, plant and equipment; and goodwill may be affected due to changes in estimated future cash flows
- Depreciation and amortisation charges in the statement of profit or loss and other comprehensive income may change where such charges are determined using the Units of Production (UOP) method, or where the useful life of the related assets change
- Provisions for decommissioning may require revision — where changes to the reserve estimates affect expectations about when such activities will occur and the associated cost of these activities
- The recognition and carrying value of deferred tax assets may change due to changes in the judgements regarding the existence of such assets and in estimates of the likely recovery of such assets

(i.d) Exploration and evaluation expenditures

The application of the Group's accounting policy for exploration and evaluation expenditure requires judgement to determine whether future economic benefits are likely, from future either exploitation or sale, or whether activities have not reached a stage which permits a reasonable assessment of the existence of reserves.

The determination of reserves and resources is itself an estimation process that involves varying degrees of uncertainty depending on how the resources are classified. These estimates directly impact when the Group defers exploration and evaluation expenditure. The deferral policy requires management to make certain estimates and assumptions about future events and circumstances, in particular, whether an economically viable extraction operation can be established.

Any such estimates and assumptions may change as new information becomes available. If, after expenditure is capitalised, information becomes available suggesting that the recovery of the expenditure is unlikely, the relevant capitalised amount is written off in the statement of profit or loss and other comprehensive income in the period when the new information becomes available.

(i.e) Units of production (UOP) depreciation of oil and gas assets

Oil and gas properties are depreciated using the UOP method over total proved developed and undeveloped hydrocarbon reserves. This results in a depreciation/amortisation charge proportional to the depletion of the anticipated remaining production from the field.

(i.f) Units of production (UOP) depreciation of oil and gas assets

The life of each item, which is assessed at least annually, has regard to both its physical life limitations and present assessments of economically recoverable reserves of the field at which the asset is located. These calculations require the use of estimates and assumptions, including the amount of recoverable reserves and estimates of future capital expenditure.

The calculation of the UOP rate of depreciation/amortisation will be impacted to the extent that actual production in the future is different from current forecast production based on total proved reserves, or future capital expenditure estimates change. Changes to proven reserves could arise due to changes in the factors or assumptions used in estimating reserves, including:

- The effect on proven reserves of differences between actual commodity prices and commodity price assumptions
- Unforeseen operational issues

(i.g) Recoverability of oil and gas assets

The Group assesses each asset or cash generating unit (CGU) (excluding goodwill, which is assessed annually regardless of indicators) each reporting period to determine whether any indication of impairment exists. Where an indicator of impairment exists, a formal estimate of the recoverable amount is made, which is considered to be the higher of the fair value less costs of disposal (FVLCD) and value in use (VIU).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

The assessments require the use of estimates and assumptions such as long-term oil prices (considering current and historical prices, price trends and related factors), discount rates, operating costs, future capital requirements, decommissioning costs, exploration potential, reserves (see (a) *Hydrocarbon reserves and resource estimates* above) and operating performance (which includes production and sales volumes). These estimates and assumptions are subject to risk and uncertainty. Therefore, there is a possibility that changes in circumstances will impact these projections, which may impact the recoverable amount of assets and/or CGUs.

Information on how fair value is determined by the Group follows.

(i.h) Decommissioning costs

Decommissioning costs will be incurred by the Group at the end of the operating life of some of the Group's facilities and properties. The Group assesses its decommissioning provision at each reporting date. The ultimate decommissioning costs are uncertain and cost estimates can vary in response to many factors, including changes to relevant legal requirements, the emergence of new restoration techniques or experience at other production sites.

The expected timing, extent and amount of expenditure may also change — for example, in response to changes in reserves or changes in laws and regulations or their interpretation.

Therefore, significant estimates and assumptions are made in determining the provision for decommissioning. As a result, there could be significant adjustments to the provisions established which would affect future financial results.

External valuers may be used to assist with the assessment of future decommissioning costs. The involvement of external valuers is determined on a case by case basis, taking into account factors such as the expected gross cost or timing of abandonment, and is approved by the Company's Audit Committee. Selection criteria include market knowledge, reputation, independence and whether professional standards are maintained. The provision at reporting date represents management's best estimate of the present value of the future decommissioning costs required.

(i.i) Fair value measurement

The Group measures financial instruments, such as derivatives, at fair value at each balance sheet date. From time to time, the fair values of non-financial assets and liabilities are required to be determined, e.g., when the entity acquires a business, or where an entity measures the recoverable amount of an asset or cash-generating unit (CGU) at FVLCD.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs. From time to time external valuers are used to assess FVLCD of the groups non-financial assets. Involvement of external valuers is decided upon by the Valuation Committee after discussion with and approval by the Company's Audit Committee.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Selection criteria include market knowledge, reputation, independence and whether professional standards are maintained. Valuers are normally rotated every three years. The valuation committee decides, after discussions with the Group's external valuers, which valuation techniques and inputs to use for each case.

Changes in estimates and assumptions about these inputs could affect the reported fair value.

3. Going Concern

The Directors note the substantial losses that the Group has made for the year ended 30 September 2019. The Directors have prepared cash flow forecasts for the period ending 31 March 2021, which takes into account anticipated costs savings, the current forward curve of Brent crude oil and external funding. In addition, within the forecasts, the Group has delayed its capital expenditure programme across its assets as the effects of Covid-19 have significantly constrained the supply of specialist oil sector services, equipment and civil engineering activities.

The cost structure of the Group comprises a high proportion of discretionary spend and therefore in the event that cash flows become constrained, costs can be quickly reduced to enable the Group to operate within its available funding.

The oil price assumptions within the cash flow forecasts are based on forward rates. However, given the current effects of Covid-19 and the "OPEC+" meeting on 5/6 March 2020, there is a high degree of uncertainty around these forward rates. These forecasts demonstrate that the Group has sufficient cash funds available to allow it to continue in business for a period of at least twelve months from the date of approval of these financial statements. Accordingly, the financial statements have been prepared on a going concern basis.

It is the prime responsibility of the Board to ensure the Group remains a going concern. At 30 September 2019 the Company had cash and cash equivalents of £12,427,000 and borrowings of £7,473,000. The Company has minimal contractual expenditure commitments and the Board considers the present funds sufficient to maintain the working capital of the Company for a period of at least 12 months from the date of signing the Annual Report and Financial Statements. For these reasons the Directors adopt the going concern basis in the preparation of the Financial Statements.

4. Changes in accounting policies and disclosures

New and amended standards and interpretations

IFRS 9 *Financial Instruments* and IFRS 15 *Revenue from Contracts with Customers* became effective for accounting periods beginning on or after 1 January 2018. The Group has applied these standards for the first time, but these do not have an impact upon the consolidated financial statements of the Group. As the Group transfers its exploration and evaluation activity to oil and gas producing activity, IFRS 15 will become more applicable.

The following standards, amendments and interpretations became effective for accounting periods beginning on or after 1 January 2019. These have not been early adopted by the Group, however assessment as to their impact is ongoing.

IFRS 16 *Leases*

IFRIC Interpretation 23 *Uncertainty over Income Tax Treatment*

Amendments to IFRS 9: *Prepayment Features with Negative Compensation*

Amendments to IAS 19: *Plan Amendment, Curtailment or Settlement*

Amendments to IAS 28: *Long-term interests in associates and joint ventures*

Annual IFRS Improvement Process:

IFRS 3 *Business Combinations* – *Previously held interests in a joint operation*

IFRS 11 *Joint Arrangements* – *Previously held interests in a joint operation*

IAS 12 *Income Taxes* – *Income tax consequences of payments on financial instruments classified as equity*

IAS 23 *Borrowing Costs* – *Borrowing costs eligible for capitalisation*

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

5. Business Combinations and acquisition of non-controlling interests

Acquisitions in the year ended 30 September 2019

Acquisition of the Magellan Petroleum (UK) Investment Holdings Limited

On 11 September 2019 through UK Oil & Gas PLC, the Group announced the completion of the acquisition of the Magellan Petroleum (UK) Investment Holdings Limited ("Magellan"), for a total consideration of £12,000,000, comprising £7,000,000 in UKOG ordinary shares and £5,000,000 in cash. £8,000,000 was paid at the acquisition date, with £3,000,000 deferred until 31 December 2019 and £1,000,000 deferred until 31 March 2020.

The acquisition increased the Group's direct interest in the Horse Hill oil field, held through the PEDL137 and PEDL246 licences, from 50.635% to 85.635%. Following acquisition, Magellan was re-named "UKOG (137/246) Holdings Ltd".

The fair values of the identifiable assets and liabilities of Magellan arising on the day of the business combination are as follows:

	Fair Value recognised on acquisition
	£'000
Assets	
Intangible Assets: Exploration Costs	840
Trade & other receivables	32
Cash	0
	<u>872</u>
Liabilities	
Trade & other payables	(25)
Net identifiable assets acquired at fair value	847
Total consideration / acquisition cost	12,000
Goodwill on acquisition	11,153
<i>Purchase consideration</i>	
Cash paid	5,000
Shares issued	3,000
Deferred consideration liability	4,000
Total consideration	12,000
<i>Analysis of cash flows on acquisition</i>	
Payment on acquisition of a subsidiary	(5,000)
Net cash acquired on acquisition	6
Transaction costs of the acquisition (included in cash flows from operating activities)	(217)
Net cash flow on acquisition	(5,211)

The Company issued 275,988,960 shares as initial consideration. The fair value of the shares is calculated with reference to the quoted price of the shares of the Company at the date of acquisition, which was 1.087p per share. Transaction costs of £217,000 were expensed and are included in administrative expenses. The attributable costs of the issuance of the shares have been charged directly to equity as a reduction in the share premium.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Deferred consideration

As part of the purchase agreement with the previous owner of Magellan, deferred consideration of £4,000,000 was agreed, to be paid in either cash or UKOG shares on or before 31 December 2019 (£3,000,000) and on or before 31 March 2020 (£1,000,000). At the date of publishing these accounts, the first deferred consideration had been settled, in UKOG shares (331,125,828 shares issued at 0.906p each).

Acquisition of a further 6% interest in Horse Hill Developments Ltd

On 21 February 2019, through UK Oil & Gas PLC, the Group acquired an additional 6% interest in Horse Hill Developments Ltd, increasing its ownership interest to 77.9%. Equity consideration of £2,100,000 was paid to the non-controlling shareholders, through the issuance of 129,629,630 UKOG shares at 1.62p per share. The carrying value of the net assets of Horse Hill Developments Ltd (excluding goodwill on the original acquisition) was £31,000. Following is a schedule of additional interest acquired in Horse Hill Developments Ltd:

	£'000
Equity consideration paid to non-controlling shareholders	2,100
Loan balances novated on acquisition	(784)
Additional cash consideration paid to Gunsynd PLC in relation to prior acquisition	60
Carrying value of the additional interest in Horse Hill Developments Ltd	(538)
Difference recognised in retained earnings	838

2018 Business Combinations:

Acquisition of Horse Hill Developments Ltd ("HHDL")

On 25 September 2018 through UK Oil & Gas PLC, the Group announced the completion of the acquisition of a further 22% shareholding interest in HHDL, for a total consideration of £6,600,000, comprising £6,175,000 in the form of 328,858,149 UKOG ordinary shares and £425,000 in cash. Prior to the completion of the interest above, the Group held a 49.9% interest in HHDL, and equity accounted as an associate investment accordingly. The additional interest therefore took the Group to a 71.9% total shareholding interest and accordingly a change in status of the investment in HHDL from an associate to a subsidiary. The resultant business combination was calculated as below.

The assets and liabilities arising on the day of the business combination are as follows:

	Horse Hill Developments Ltd Fair Value	Non-controlling interest Adjustments	Total Fair Value
	£'000	£'000	£'000
Intangible Assets: Exploration Costs	13,523	(3,800)	9,723
Trade & other receivables	460	(129)	331
Cash	3,100	(871)	2,229
Current Liabilities	(2,166)	609	(1,557)
Borrowings	(12,601)	3,540	(9,061)
Net identifiable assets acquired at fair value			1,665
Total consideration / acquisition cost			7,955
Goodwill on acquisition			6,290

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Total purchase consideration / acquisition cost is made up as follows;

Cash paid	3,893
Shares issued	8,446
Associate losses accounted for	(672)
Loans novated to UKOG on acquisitions	(3,712)
Total consideration / acquisition cost (see below)	7,955

Total cash flow on the additional acquisition in the current year is as follows:

Cash paid	(425)
Net cash acquired with the subsidiaries	3,100
Net consolidated cash inflow for the year ended 30 September 2018	2,675

The total consideration / acquisition costs include all the equity shares the group has acquired in HHDL over the previous 4 years, whilst building up its equity interest therein. As part of the equity acquisitions, UKOG also acquired the loan balances owed from HHDL to the equity shareholder at the time of each acquisition, for nominal costs.

6. Segment Reporting

All of the Group's assets and operations are located in the United Kingdom. For management purposes, the Group is organised into business units based on the main types of activities and has three reportable segments, as follows:

- Oil exploration and production: includes producing business activities
- Oil exploration and evaluation: includes non-producing activities.
- Head Office, corporate and administrative, including parent company activities.

The Board of Directors monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss and is measured consistently with operating profit or loss in the consolidated financial statements. However, the Group's financing (including finance costs and finance income) and income taxes are managed on a group basis and are not allocated to operating segments.

The accounting policies used by the Group in reporting segments internally are the same as those used in the financial statements.

Subject to further acquisitions and/or disposals, the Group expects to further review its segmental information during the forthcoming financial year, as it begins to see the full impact of its acquisitions and/or disposals.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Group				
Year ended 30 September 2019	Oil production £'000	Oil exploration & evaluation £'000	Corporate & Administrative £'000	Consolidated £'000
Revenue				
External Customers	213	-	-	213
Total revenue	213	-	-	213
Results				
Depreciation, Depletion & Amortisation	(17)	(200)	(8)	(225)
Exploration Write offs & Impairment	-	(2)	-	(2)
Profit/(loss) before & after taxation	21	(602)	(4,813)	(5,394)
Segment assets	310	45,603	8,807	54,720
Segment liabilities	(101)	(9,415)	(4,410)	(13,926)
Other disclosures:				
Goodwill on acquisition		17,443		17,443
Capital expenditure (1)		3,253		3,253

(1) Capital expenditure consists of capitalised exploration expenditure, development expenditure, additions to oil & gas properties and to other intangible assets including expenditure on assets from the acquisition of subsidiaries.

Group				
Year ended 30 September 2018	Oil production £'000	Oil exploration & evaluation £'000	Corporate & Administrative £'000	Consolidated £'000
Revenue				
External Customers	225	-	-	225
Total revenue	225	-	-	225
Results				
Depreciation, Depletion & Amortisation	(15)	(48)	-	(63)
Exploration Write offs & Impairment	-	(11,560)	(222)	(11,782)
Share of associates loss	-	(419)	-	(419)
Profit/(loss) before & after taxation	112	(13,657)	(3,202)	(16,747)
Segment assets	1,776	33,321	9,555	44,652
Segment liabilities	-	(882)	(6,982)	(7,864)
Other disclosures:				
Goodwill on acquisition	-	6,290	-	6,290
Capital expenditure (1)	174	19,616	-	19,790

(1) Capital expenditure consists of capitalised exploration expenditure, development expenditure, additions to oil & gas properties and to other intangible assets including expenditure on assets from the acquisition of subsidiaries.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

7. Operating Loss

Group	2019 £'000	2018 £'000
Operating (loss) is stated after charging:		
– Directors remuneration – fees & salaries	855	435
– Employee Benefit Trust charge	25	6
– Auditors' remuneration		
Audit-related assurance services	43	42
Other compliance services	-	35
– Depletion of oil & gas properties	15	63

8. Directors and Employees

The Company employed the services of an average of 11 Employees in the year (2018: 6), of which an average of 4 (2018: 3) were executive and non-executive Directors. Remuneration in respect of these employees was:

Group	2019 £'000	2018 £'000
Employment costs, including Directors, during the year:		
Wages and salaries	1,401	496
Social security costs	181	56
Employee pension costs	7	2
Consultancy fees	200	313
Share based payments	693	309
	2,481	1,176
Average number of persons, including executive Directors employed	No.	No.
Administration	7	4
Operations	4	2
	11	6
Directors' remuneration	£'000	£'000
Emoluments	1,086	744
	2019 £'000	2018 £'000
Stephen Sanderson	766	584
Kiran Morzaria	153	108
Allen Howard	89	43
Nicholas Mardon Taylor (*)	78	9
Total Directors Emoluments	1,086	744

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

	Fees and salaries	Bonuses	Share based payments (**)	Total
2019	£'000	£'000	£'000	£'000
S Sanderson	314	310	142	766
K Morzaria	116	-	37	153
A Howard	60	-	29	89
N Mardon Taylor (*)	55	-	23	78
	545	310	231	1,086

	Fees and salaries	Bonuses	Share based payments (**)	Total
2018	£'000	£'000	£'000	£'000
S Sanderson	275	-	309	584
K Morzaria	108	-	-	108
A Howard	43	-	-	43
N Mardon Taylor (*)	9	-	-	9
	435	-	309	744

*Appointed 1 August 2018, ** Share based payments are non-cash remuneration by way of the issue of share options in the company. No pension contributions were made on behalf of Directors during the year.

9. Finance Costs

	2019	2018
	£'000	£'000
Loan interest due to non-controlling interests	258	-
Convertible Loan Note arrangement fees	312	510
Unwind discount on decommissioning provision	37	-
Finance Costs	607	510

10. Income Tax

There is no tax credit on the loss for the current or prior year. The tax assessed for the year differs from the standard rate of corporation tax in the UK as follows:

	2019	2018
	£'000	£'000
Loss for the year before tax	(5,394)	(16,747)
Tax rate	19%	19%
Expected tax credit	(1,025)	(3,182)
Expenses not deductible for tax purposes	154	213
Future income tax benefit not brought to account	871	2,969
Actual tax expense	-	-

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

11. Loss per Share

The calculation of the basic loss per share is calculated by dividing the consolidated loss attributable to the equity holders of the Company by the weighted average number of ordinary shares in issue during the year.

Group	2019 £'000	2018 £'000
(Loss) attributable to ordinary shareholders	(5,394)	(16,747)
	Number	Number
Weighted average number of ordinary shares for calculating basic loss per share	5,857,965,158	4,116,039,727
	Pence	Pence
Basic and diluted loss per share	(0.09)	(0.41)

As inclusion of the potential ordinary shares would result in a decrease in the earnings per share they are considered to be anti-dilutive, as such, a diluted earnings per share is not included.

12. Intangible assets

	Group Exploration & evaluation costs £'000	Decommissioning Asset £'000	Goodwill £'000	Total £'000	Company Exploration & evaluation costs £'000
Cost & Net Book Value					
As at 1 October 2017	15,110	-	-	15,110	1,318
Acquired through Business Combinations (Note 2)	13,523	-	6,290	19,813	-
Additions	5,793	362	-	6,155	2,016
Exploration Write offs	(11,560)	-	-	(11,560)	(1,205)
Impairment	(222)	-	-	(222)	(729)
As at 30 September 2018	22,644	362	6,290	29,296	1,400
Acquired through Business Combinations (Note 2)	841	-	11,153	11,994	-
Additions	6,150	7	-	6,157	901
Revenues from sale of by-product	(2,411)	-	-	(2,411)	-
Exploration Write offs	-	-	-	-	-
Amortisation	-	(13)	-	(13)	-
As at 30 September 2019	27,224	354	17,443	45,021	2,301

Revenues from the sale of hydrocarbons produced as a by-product of testing and evaluation activities have been offset against the costs of the intangible asset. These totalled £2,411,000 in the year.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Directors have assessed the fair value of the exploration & evaluation assets as at 30 September 2019 and have concluded the carrying value of the following assets require write off:

Exploration and evaluation activity involves the search for hydrocarbon resources, the determination of technical feasibility and the assessment of commercial viability of an identified resource. The additions during the year reflect the associated exploration and evaluation activities.

At this point the Company is still assessing the potential of the remaining assets and will continue to develop and evaluate these assets in the coming year. Since their acquisition dates there has been no further material changes to the Licence areas. The directors therefore consider that no further impairment is required at 30 September 2019, other than detailed above.

The group tests whether goodwill has suffered any impairment on an annual basis at each reporting date. For the 2018 reporting period, the recoverable amount of the cash generating units (CGUs) was determined based on value-in-use calculations which require the use of assumptions. The calculations use cash flow projections based on financial budgets approved by management covering a 25-year period.

Cash flows beyond the 25-year period are extrapolated using the estimated growth rates stated below. These growth rates are consistent with forecasts included in industry reports specific to the industry in which each CGU operates.

13. Oil & Gas Properties

Group				
	Oil & gas properties	Property, plant & equipment	Total	Total
	2019	2019	2019	2018
Group	£'000	£'000	£'000	£'000
Cost				
As at 1 October	1,698	308	2,006	1,832
Reclassifications	-	-	-	-
Additions	-	128	128	174
As at 30 September	1,698	436	2,134	2,006
Depletion & impairment				
As at 1 October	(249)	(48)	(297)	(234)
Depletion charge	(15)	(195)	(210)	(63)
As at 30 September	(264)	(243)	(507)	(297)
Carrying value				
As at 30 September	1,434	193	1,627	1,709

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

	Property, plant & equipment £'000
Company	
Cost	
As at 1 October	-
Reclassifications	-
Additions	116
As at 30 September	116
Depletion & impairment	
As at 1 October	-
Depletion charge	(8)
As at 30 September	(8)
Carrying value	
As at 30 September	108

Impairment review

The Directors have carried out an impairment review as at 30 September 2019 and determined that an impairment charge is not currently required in relation to Oil & Gas properties and related property plant & equipment. The Directors based this assessment on ongoing production from Horndean and in the case of Avington the operational optimisation that is ongoing to improve operational efficiencies.

14. Investment in Subsidiaries

Company	2018 £'000	2018 £'000
Cost and net book amount		
At 1 October	12,785	5,019
Additions in the year	13,421	7,955
Impairment	-	(189)
At 30 September	26,206	12,785

At 30 September 2018, the Directors assessed the carrying value of investments in the Company's subsidiaries with the result that the investments in UKOG Solent Limited and UKOG Weald Limited were written down to zero, with an impairment charge of £189,000. The two subsidiaries both relinquished licences during the year, causing the Directors to impair accordingly.

The Company holds more than 50 per cent of the share capital of the following companies as at 30 September 2019:

Company	Country of Registration	Proportion held	Functional Currency	Nature of business
UKOG (GB) Limited	UK	100%	GB£	Oil production
UKOG Solent Limited	UK	100%	GB£	Oil exploration
UKOG Weald Limited	UK	100%	GB£	Oil exploration
UKOG (234) Limited	UK	100%	GB£	Oil exploration
Horse Hill Developments Ltd	UK	77.9%	GB£	Oil exploration
UKOG (137/246) Holdings Ltd	UK	100%	GB£	Holding Company
UKOG (KOGI) Ltd	UK	100%	GB£	Dormant
UK Oil & Gas Investments Limited	UK	100%	GB£	Dormant

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

All subsidiary undertakings are included in the consolidation. The proportion of the voting rights in the subsidiary undertaking held directly by the parent company do not differ from the proportion of the ordinary shares held. The following companies are taking an exception from the audit of the financial statements as per S479A of the Companies Act; UKOG (GB) Limited (04050227), UKOG Solent Limited (05000092), UKOG Weald Limited (04991234), UKOG (234) Ltd (07055133), UKOG (137/246) Holdings Ltd (09010542).

15. Investment in Associate

Group and Company	2019 £'000	2018 £'000
Carrying Value as at 1 October	-	5,003
Net equity additions at cost	-	3,371
Share of associates loss for the year	-	(419)
Transferred to investment in subsidiaries	-	(7,955)
Carrying Value as at 30 September	-	-

On 25 September 2018, the Company completed the acquisition of a further 22% interest in Horse Hill Developments Ltd for a total consideration of £6,600,000 (cash £425,000 and UKOG share issues £6,175,000) and net loan acquisitions of £3,229,000. This increase resulted in increasing the Company's holding to 71.9% and reclassified the investment as a subsidiary. See Note 5 – Business Combinations for further details

16. Inventory

Group	2019 £'000	2018 £'000
Inventories - Crude Oil	1	5
Total	1	5

17. Trade and Other Receivables

	Group		Company	
	2019 £'000	2018 £'000	2019 £'000	2018 £'000
Trade debtors	294	38	4	13
Other debtors	422	660	181	252
Loans to subsidiary companies	-	-	26,974	23,076
Prepayments and accrued income	463	517	125	271
Total	1,179	1,215	27,284	23,612

During the year to 30 September 2018, the parent company UKOG wrote-off loans to subsidiary companies, UKOG (Solent) Ltd and UKOG (Weald) Ltd totalling £319,000 as a result of the impairment decisions made by the Directors.

The directors consider that the carrying amount of trade and other receivables approximates to their fair value.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

18. Cash and Cash Equivalents

	Group		Company	
	2019	2018	2019	2018
	£'000	£'000	£'000	£'000
Cash at bank and in hand	6,892	12,427	6,196	9,160
Total	6,892	12,427	6,916	9,160

19. Trade and Other Payables

	Group		Company	
	2019	2018	2019	2018
	£'000	£'000	£'000	£'000
Current trade and other payables				
Trade creditors	637	1,699	63	226
Other creditors	62	276	60	276
Accruals and deferred income	1,327	1,015	307	161
Deferred consideration payable	4,000	-	4,000	-
Total	6,026	2,990	4,430	663

The directors consider that the carrying amount of trade and other payables approximates to their fair value.

20. Borrowings

	Group		Company	
	2019	2018	2019	2018
	£'000	£'000	£'000	£'000
Borrowings				
Loans payable to Non-Controlling Interests	2,973	3,533	-	-
Convertible Loan Notes	4,500	-	4,500	-
Total	7,473	3,533	4,500	-

As part of the of the business combination acquisition of Horse Hill Developments Ltd (HHDL) in last year's account period, the Group acquired loans made to HHDL by Alba Mineral Resources PLC (Alba) and Doriemus Plc (Doriemus). The loans are payable on determination by the Board of HHDL. The loans currently attract an interest rate of 10% above Bank of England base Rate. At 30 September 2019, the outstanding balances owed to HHDL's shareholders were; Alba £2.43 million (2018: £2.26m), Doriemus £1.27 million (2018: £1.27m) and UK Oil & Gas Plc £11.67 million (2018: £9.04m).

Convertible Loan Financing

In August 2019, the Company entered into a £5.5 million loan agreement (Loan) with Riverfort Global Opportunities PCC Limited and YA II PN Ltd (Investors). The £5.5 million was drawn down on 16 August 2019. The draw downs of the loans attracted total fees of £312,000 in accordance with the terms thereof.

The Loan attracts 0% interest and may, at the sole discretion of the Investors, be converted into new ordinary shares in the Company. The conversion price is the lower of either a share price of 130% of the Company's average daily VWAP of the 5 days prior to the Loan drawdown (Fixed Conversion Price), or 90% of the Company's lowest daily VWAP during the 5 days prior to the conversion date (Variable Conversion Price). The Fixed Conversion Price is 1.3664 pence being the average daily VWAP for the 5 days preceding the date on which the full £5.5m was drawn down.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

The Loan is convertible by the Investors in tranches of not less than £150,000, with a limit of £3 million per quarter, unless otherwise agreed by the Company. The Company can elect to repay in cash all or part of the Loan prior to term end.

The Loan also includes a provision which prevents the Investors, or any of their affiliates, from holding any net short position with respect to UKOG's equity and, with full disclosure to UKOG, restricts the Investors' trades, on any given day, to no more than 15% of the number of UKOG shares traded that day. At 30 September 2019 there £4.5 million remained outstanding.

21. Provisions - Decommissioning

Group	2019 £'000	2018 £'000
As at 1 October	1,341	359
Additions	59	1,059
Release	(936)	(77)
Unwind discount	(37)	-
As at 30 September	427	1,341

The amount provided at 30 September 2019 represents the Group's share of decommissioning liabilities in respect of the producing Horndean and Avington fields, and the Broadford Bridge, Horse Hill and Markwells Wood drilling sites.

The Company makes full provision for the future cost of decommissioning oil production facilities and pipelines on a discounted basis on the installation of those facilities. The decommissioning provision represents the present value of decommissioning costs relating to oil and gas properties.

These provisions have been created based on the Company's internal estimates. Assumptions based on the current economic environment have been made, which management believes are a reasonable basis upon which to estimate the future liability. These estimates are reviewed regularly to take into account any material changes to the assumptions.

However, actual decommissioning costs will ultimately depend upon future market prices for the necessary decommissioning works required that will reflect market conditions at the relevant time. Furthermore, the timing of decommissioning is likely to depend on when the fields cease to produce at economically viable rates. This, in turn, will depend upon future oil and gas prices, which are inherently uncertain.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

22. Share Capital

Ordinary Shares	Number of ordinary shares	Nominal Value £	Total Value £'000
Issued at 30 September 2017	3,540,120,962	0.0001	354
For conversion of loan notes (At prices from 4.1p to 0.9p)	684,626,188	0.0001	68
On 08 November 2017, for options exercised at 1.15p per share	8,000,000	0.0001	1
On 08 December 2017, for acquisition at 8p per share	9,382,271	0.0001	1
On 13 April 2018, for options exercised at 0.4p per share	1,000,000	0.0001	-
On 14 June 2018, placing for cash at 0.9p per share	611,111,105	0.0001	62
On 28 June 2018, for options exercised at 1.15p per share	3,000,000	0.0001	-
On 02 July 2018, placing for cash at 2p per share	250,000,000	0.0001	25
On 04 July 2018, placing for cash at 2p per share	100,000,000	0.0001	10
On 13 August 2018, for warrants exercised at 0.9p per share	14,000,000	0.0001	1
On 06 September 2018, for warrants exercised at 0.9p per share	16,555,555	0.0001	2
On 25 September, for acquisition at 1.76p per share	31,171,898	0.0001	3
On 25 September 2018, for acquisition at 1.77p per share	63,644,030	0.0001	6
On 25 September 2018, for acquisition at 1.92p per share	234,042,221	0.0001	24
Issued at 30 September 2018	5,566,654,230	0.0001	557
On 21 January 2019, for acquisition at 1.44p per share	17,989,326	0.0001	2
On 20 February 2019, for acquisition at 1.62p per share	129,629,630	0.0001	13
On 27 March 2019, placing for cash at 1.05p per share	333,333,330	0.0001	33
On 31 May 2019, for acquisition at 1.16p per share	25,951,557	0.0001	3
On 31 May 2019, for acquisition at 1.16p per share	9,731,834	0.0001	1
On 11 September 2019, for acquisition at 1.81p per share	275,988,960	0.0001	28
On 30 September 2019, placing to Employee Benefits Trust at par	60,926,076	0.0001	6
For conversion of loan notes (at prices from 1.08p to 1.29p)	37,362,227	0.0001	4
	201,000,000	0.0001	20
Issued at 30 September 2019	6,658,567,170	0.0001	666

Deferred shares

The Company has in existence at 30 September 2019 and at 30 September 2018, 1,158,385,229 deferred shares of 0.001p. These deferred shares do not carry voting rights.

Total Ordinary and Deferred Shares

The issued share capital as at 30 September 2019 is as follows:

	Number of shares	Nominal Value £	Total Value £'000
Ordinary shares	6,658,567,170	0.0001	666
Deferred shares	1,158,385,352,229	0.00001	11,584
			<u>12,250</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

23. Share Based Payments

During the year 121.5 million options were granted (2018: 52.5 million).

As at 30 September 2019 the options in issue were:

Exercise price	Expiry date	Options in issue 30 September 2019
0.4p	31 December 2019	35,000,000
1.15p	24 May 2022	117,000,000
1.6p	12 April 2023	17,500,000
0.113p	25 September 2024	121,500,000
		291,000,000

No options were exercised, and no options were cancelled during the year (2018: 12,000,000 exercised). 45,000,000 options lapsed during the year (2018: 35,000,000).

Warrants

As of 30 September 2019, 16,666,666 warrants were in issue (2018: nil).

16,666,666 warrants were issued during the year (2018: 30,555,000). No warrants lapsed during the year (2018: nil). No warrants were exercised during the year (2018: 30,555,000 exercised).

Employee Benefit Trust

The Company established on 29 September 2014, an employee benefit trust called the UK Oil & Gas Employee Benefit Trust (EBT) to implement the use of the Company's existing share incentive plan over 10% of the Company's issued share capital from time to time in as efficient a manner as possible for the beneficiaries of that plan. The EBT is a discretionary trust for the benefit of directors, employees and consultants of the Company. The shares held in the EBT are intended to be used to satisfy future awards made by the Company's Remuneration Committee under the share incentive scheme.

On the 30 September 2019, the Trustees subscribed for 201,000,000 new ordinary shares of 0.01p each in the Company, at par value per Ordinary Share at an aggregate cost to the Company of £20,100, such new Ordinary Shares representing 3.1% of the existing issued share capital of the Company. Awards of Ordinary Shares to beneficiaries by the EBT will be subject to appropriate vesting and other performance conditions, in line with normal market practice, which will be set by the Remuneration Committee.

After the issue of the 201,000,000 new ordinary shares in the EBT the balance of new ordinary shares held by the EBT at the end of 30 September 2019 was 250,000,000.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

23. Share-Based Payments

Details of share options and warrants granted during the year to Directors, consultants & employees over the ordinary shares are as follows:

	At 1 October 2018 No. Million	Issued during the year No. million	lapsed / exercised during the year No. million	At 30 September 2019 No. million	Exercise price £	Date from which exercisable	Expiry date
Share options							
A Howard	10			10	0.0115	25/05/2017	24/05/2022
A Howard		5		5	0.0113	27/09/2019	25/09/2024
K Morzaria	20			20	0.0115	25/05/2017	24/05/2022
K Morzaria		6.5		6.5	0.0113	27/09/2019	25/09/2024
S Sanderson	35		(35)	-	0.0182	28/09/2016	28/09/2019
S Sanderson	25			25	0.0040	13/04/2018	31/12/2019
S Sanderson	25			25	0.0115	25/05/2017	24/05/2022
S Sanderson		25		25	0.0113	27/09/2019	25/09/2024
N Mardon Taylor		4		4	0.0113	27/09/2019	25/09/2024
	115	40.5	(35)	120.5			
Consultants	10		(10)	-	0.0182	28/09/2016	28/09/2019
Consultants	62			62	0.0115	25/05/2017	24/05/2022
Consultants	10			10	0.0040	13/04/2018	31/12/2019
Consultants & employees	17.5			17.5	0.0160	13/04/2018	12/04/2023
Consultants & employees		81		81	0.0113	27/09/2019	25/09/2024
	214.5	121.5	(45)	291			

The share price range during the year was £0.0082 to £0.02075 (2018 - £0.01125 to £0.07375).

The disclosure of Weighted Average Exercise Prices, and Weighted Average Contractual Life analysis is not viewed as informative because of the minimal variation of options currently in issue, and therefore has accordingly not been disclosed.

For those options granted where IFRS 2 "Share-Based Payment" is applicable, the fair values were calculated using the Black-Scholes model. The inputs into the model were as follows:

	Risk free rate	Share price volatility	Expected life	Share price at date of grant
13 April 2018 (0.4p)	0.8%	128.9%	1.72 years	£0.015
13 April 2018 (1.6p)	0.9%	128.9%	5 years	£0.015
27 September 2019 (0.0113p)	0.4%	63.13%	5 years	£0.011

Expected volatility was determined by calculating the historical volatility of the Company's share price for 12 months prior to the date of grant. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations. The Company recognised total expenses of £693,000 (2018: £655,000) relating to equity-settled share-based payment transactions during the year, and £472,000 (2018: £237,000) was transferred via equity to retained earnings on the exercising or lapse of options during the year.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

24. Financial Instruments and Risk Analysis

Financial Assets by Category

The categories of financial asset, all included at fair value in the balance sheet and the headings in which they are included are as follows:

Current assets – Group	2019 £'000	2018 £'000
Inventory	1	5
Trade and other receivables	1,179	1,215
Cash and cash equivalents	6,892	12,427
	8,072	13,647

Financial Liabilities by Category

The categories of financial liability all included at fair value in the balance sheet and the headings in which they are included are as follows:

Current liabilities – Group	2019 £'000	2018 £'000
Trade and other payables	6,025	2,990
Borrowings	7,473	3,553
	13,498	6,523

The group is exposed to market risk through its use of financial instruments and specifically to credit risk, and liquidity risk which result from both its operating and investing activities. The group's risk management is coordinated at its head office, in close co-operation with the board of Directors, and focuses on actively securing the group's short to medium term cash flows by minimising the exposure to financial markets.

Long term financial investments are managed to generate lasting returns. The group does not actively engage in the trading of financial assets for speculative purposes nor does it write options. The most significant financial risks to which the group is exposed to are described below.

Interest Rate Sensitivity

The group is not substantially exposed to interest rate sensitivity, other than in relation to interest bearing bank accounts. The Group only has borrowings at a fixed coupon rate of 10%+BOE and therefore minimal interest rate risk, as this is deemed its only material exposure thereto.

Credit Risk Analysis

The group's exposure to credit risk is limited to the carrying amount of trade receivables and cash at bank. The group continuously monitors defaults of customers and other counterparties, identified either individually or by Company, and incorporates this information into its credit risk controls. Where available at reasonable cost, external credit ratings and/or reports on customers and other counterparties are obtained and used.

The group's policy is to deal only with creditworthy counterparties. Group management considers that trade receivables that are not impaired for each of the reporting dates under review are of good credit quality, including those that are past due. None of the group's financial assets are secured by collateral or other credit enhancements. The credit risk for liquid funds and other short-term financial assets is considered negligible since the counterparties are reputable banks with high quality external credit ratings.

Liquidity risk analysis

The majority of the Group's liabilities are contractually due within one year. As at the end of the year there was £4.5 million outstanding of the convertible loan which is due in September 2021. The loan note due from HHDL to Alba and Doriemus is payable on determination by the Board of HHDL.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

The group's continued future operations depend on the ability to raise sufficient working capital through the issue of equity share capital. The Directors are confident that adequate funding will be forthcoming with which to finance operations. Controls over expenditure are carefully managed.

Capital Management Policies

The group's capital management objectives are to:

- Ensure the group's ability to continue as a going concern; and
- Provide a return to shareholders
- To provide capital for the purpose of strengthening the Group's risk management capability.

The Group actively and regularly reviews and manages its capital structure, to ensure an optimal capital structure, and equity holder returns, taking into consideration the future capital requirements of the Group and capital efficiency, prevailing and projected profitability, projected operating cash flows, projected capital expenditures and projected strategic investment opportunities. Management regards total equity as capital and reserves, for capital management purposes.

Commodity price risk

The Group is exposed to the risk of fluctuations in prevailing market commodity prices on the mix of oil and gas products it produces. The Group's policy is to manage these risks through the use of contract-based prices with customers.

Commodity price sensitivity

The table below summarises the impact on profit before tax for changes in commodity prices. The analysis is based on the assumption that the crude oil price moves 10% resulting in a change of US\$ 6.62/bbl (2018: US\$ 6.68/bbl), with all other variables held constant. Reasonably possible movements in commodity prices were determined based on a review of the last two years' historical prices and economic forecasters' expectations.

Increase/decrease in crude oil prices	Effect on profit before tax for the year ended 30 September 2019 Increase/(Decrease)	Effect on profit before tax for the year ended 30 September 2018 Increase/(Decrease)
	£'000	£'000
Increase US\$ 6.62 /bbl (2018: US\$ 6.68/bbl)	21	23
Decrease US\$ 6.62 /bbl (2018: US\$ 6.68/bbl)	(21)	(23)

Currency risk

The Group has no significant monetary assets or liabilities that are denominated in a foreign currency. The Group's exposed to currency risk, with the price of Brent Crude Oil being denominated in US\$. The current exposure is not seen as material, with the current level of revenue being generated therefrom. The Board will continue to monitor this risk as the operations and/or revenues increase.

25. Commitments & Contingent Liabilities

As at 30 September 2019, the Group had the following material commitments;

Ongoing exploration expenditure is required to maintain title to the Group's exploration permits. No provision has been made in the financial statements for these amounts as the expenditure is expected to be fulfilled in the normal course of the operations of the Group.

There were no contingent liabilities at 30 September 2019.