IOG UK Limited
(formerly Oyster Petroleum Limited)

Annual Report and Audited Financial Statements

For the year ended 31 December 2016

Company Number 08619688

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(formerly Oyster Petroleum Limited)

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for the year ended 31 December 2016

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Country of incorporation
United Kingdom

Legal form
Private limited company with share capital

Directors
Mark Routh
Andrew Hockey

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United Kingdom

Company number
08619688

IOG UK Limited
(formerly Oyster Petroleum Limited)

Strategic Report
for the year ended 31 December 2016

The Directors present their Strategic Report, Directors' Report and the audited financial statements of IOG UK Limited (the 'Company' or 'IOGUK') for the year ended 31 December 2016. All amounts are shown in Pounds Sterling, unless otherwise stated. The Company changed its name from Oyster Petroleum Limited to IOG UK Limited during the course of the year as a result of its acquisition by Independent Oil and Gas PLC.

STRATEGIC REPORT

Review of activities and business review
The Company is currently the licensee and operator of four Traditional Licences all in the Southern North Sea ('SNS'):

- P1915 covering block 49/21c in which lies the Vulcan South discovery;
- P2122 covering block 49/21d in which lies the Vulcan East II discovery;
- P039 covering block in which lies the Vulcan East discovery;
- P130 covering block 48/25a in which lies the Vulcan North West discovery; and
- P2342 covering block 48/25a which lies adjacent to the Vulcan North West discovery.

IOGUK holds all licences at 100% ownership.

Vulcan Satellites

During the year, the Company was acquired by Independent Oil and Gas plc. All of the projects previously held by the company were written off in 2015, most notably Red Castle, for which an impairment of charge of £5,416,000 was recorded in the prior year.

As part of the acquisition of the Company, the previous parent company Oyster Petroleum Holdings Limited contributed the three Vulcan Satellites fields to the Company in exchange for shares. According to AGR Tracs Technical Summary (2015), these assets provide the Company with 2C gas resources of 320.7 BCF (55.3 MMBoe).

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

The Company is preparing a joint Vulcan Satellites hub Field Development Plan ('FDP') for these three assets, which will be co-developed as a gas hub using up to three Normally Unmanned Installation ('NUI') platforms with gas exported via the recommissioned Thames pipeline. This FDP is expected to be submitted in the second half of 2017. Reservoir modelling and other technical and engineering studies are ongoing in the second quarter of 2017 as inputs to this FDP. The Company expects to receive an updated Competent Person's Report ('CPR') on the Vulcan Satellite fields early 4Q 2017.

The Company provisionally anticipates the development plan to consist of a total of eight fracture stimulated wells. The Final Investment Decision ('FID') on the Vulcan Satellites is expected to be reached by the end of 1Q 2018, with first gas expected to follow by mid-2019. The Company is in increasingly advanced discussions regarding the financing, commercial and gas offtake arrangements for these assets. The Company's latest economic forecasts estimate that the Vulcan Satellites collectively have an un-risked net present value (using a 10% discount rate) in the region of £220 million, with a life-of-field average breakeven gas price in the 23-25p per therm range.

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

Subsequent to the year end, on 3 August 2017, the Company was awarded licence P2342, including Block 48/25a, which is located to the west of the Vulcan North West field.

Key Performance Indicators

The Directors consider non-financial information to be the KPIs of the Company. Non-financial performance is tracked through the accumulation of licence interests followed by the successful discovery and exploitation of oil and gas reserves as indicated through prospective, contingent and proved reserves inventories.

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

Key risks and associated mitigation are set out below.

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

Risk	Mitigation
Company may not be able to raise funds either through its parent company or through third parties to exploit its assets or continue as a going concern	• The Company's parent continues to seek new funding • Focus is placed on prudent cash management and building an asset portfolio attractive to investors
Each asset carries its own risk profile and no outcome can be certain	• Management aims to avoid over-exposure to individual assets by taking a portfolio approach and by identifying the associated risks objectively. The Company seeks to mitigate the exploration risk through the experience and expertise of specialists and the selection criteria used when identifying the prospective areas for licence applications and acquisitions.

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

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

Personnel: The Company relies upon its parent's pool of experienced and motivated personnel to identify and execute successful investment strategies

Risks	Mitigation
Key personnel may be lost to other companies	• The parent company's remuneration committee regularly evaluates incentivisation schemes to ensure they remain competitive

Principal Risks and Uncertainties (cont'd)

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

Future developments
The Company's ultimate parent continues to seek long term funding for the Vulcan Satellites through to first production. Subject to the availability of finance, the Company plans to develop these existing discoveries, explore new licence interests and seek new investment opportunities.

On behalf of the board

Mark Routh

Mark Routh
Director

29 September 2017

Results and dividend
The Company made a loss on ordinary activities for the period of £305,000 (2015: £8,830,000 - restated). The Directors do not recommend the payment of a dividend (2015: nil). The loss in the prior year was a result of the impairment of Red Castle of £5,416,000. The admin costs in the prior year related mainly to head office costs and directors' salaries as detailed in the notes to the accounts.

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

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

Directors and their interests
The Directors who held office during the year, and at the date of this report, were:

Mark Routh (appointed 27 October 2016)
Peter Young (appointed 27 October 2016, resigned 20 March 2017)
David Peattie (appointed 27 October 2016, resigned 20 March 2017)
Hywel John (appointed 20 March 2017, resigned 13 September 2017)
Andrew Hockey (appointed 20 March 2017)
Colin Christie (resigned 27 October 2016)
Alan Curran (resigned 27 October 2016)
Einar Gjelsvik (resigned 27 October 2016)

There are no directors' interests requiring disclosure under the Companies Act 2006.

Indemnities
The Company did not provide Directors and Officers Liability insurance during the year (2015: nil).

Financial instruments
Information on financial instruments can be found in Note 12 to the financial statements.

Related parties
Information on related parties can be found in Note 14 to the financial statements.

Subsequent events
Information on subsequent events can be found in Note 16 to the financial statements.

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

Company law requires the Directors to prepare financial statements for each financial year or relevant period. Under that legislation, the Directors have elected to prepare the Company's financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

In preparing these financial statements, the Directors are required to:

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

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

Directors' confirmation
Each person who is director at the time when this report is approved, having made enquiries of fellow directors and of the Company's auditor, has confirmed that:

a. So far as each director is aware, there is no relevant audit information of which the Company's auditor is unaware; and
b. Each director has taken all the steps that ought to have been taken as a director, including making appropriate enquiries of fellow directors and the Company's auditor for that purpose, in order to be aware of any information needed by the Company's auditor in connection with preparing their report and to establish that the Company's auditor is aware of that information.

Auditor
BDO LLP have expressed their willingness to continue in office and a resolution to re appoint them will be proposed at the Annual General Meeting.

On behalf of the board

Mark Routh

Mark Routh
Director

29 September 2017

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF IOG UK LIMITED

We have audited the financial statements of IOG UK Limited for the year ended 31 December 2016 which comprise the Statement of Comprehensive Income, Statement of Changes in Equity, Statement of Financial Position and the related Notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting principles).

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

Respective responsibilities of directors and auditors
As explained more fully in the Statement of Directors' Responsibilities, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Financial Reporting Council's (FRC's) Ethical Standards for Auditors.

Scope of the audit of the financial statements
A description of the scope of an audit of financial statements is provided on the FRC's website at www.frc.org.uk/auditscopeukprivate.

Opinion on financial statements
In our opinion, the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2016 and of the Company's loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice;
- have been prepared in accordance with the requirements of the Companies Act 2006.

Emphasis of Matter – Going Concern
In forming our opinion on the financial statements which is not modified, we have considered the adequacy of the disclosures made in Note 1 to the financial statements concerning the Company's ability to continue as a going concern. This is dependent on the parent company's ability to raise further funding and negotiate the deferral or settlement of existing creditors through equity issues to enable the Company to meet its liabilities as they fall due in the next 12 months, and these arrangements are not yet in place. In the absence of such arrangements these conditions indicate the existence of a material uncertainty which may cast significant doubt as to the Company's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the entity was unable to continue as a going concern.

INDEPENDENT AUDITOR'S REPORT *(continued)*

Opinion on other matters prescribed by the Companies Act 2006
In our opinion, based on the work undertaken during the course of the audit:

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

Matters on which we are required to report by exception
We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

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

BDO LLP

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

29 September 2017

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

IOG UK Limited
(formerly Oyster Petroleum Limited)

Statement of comprehensive income
for the year ended 31 December 2016

	Note	2016	2015 Restated
		£000	£000
Cost of sales		(48)	(252)
Gross Loss		**(48)**	(252)
Exploration and evaluation expenses	2	(164)	(26)
Administrative expenses		(56)	(2,527)
Foreign exchange loss	2	(28)	(117)
Depletion, depreciation and amortisation	2	(9)	(493)
Impairment of exploration and evaluation assets	2	-	(5,416)
Operating loss		**(305)**	(8,831)
Net finance income		-	1
Loss for the year before tax		**(305)**	(8,830)
Taxation	4	-	-
Total comprehensive loss for the year attributable to equity holders		**(305)**	(8,830)

The Notes on pages 12 to 27 form part of these financial statements.

IOG UK Limited
(formerly Oyster Petroleum Limited)

Statement of changes in equity
for the year ended 31 December 2016

	Share capital restated £000	Share premium restated £000	Accumulated deficit restated £000	Total equity restated £000
At 1 January 2015	3,000	17,235	(14,232)	6,001
Loss and total comprehensive loss for the year	-	-	(8,830)	(8,830)
Share capital issued	455	2,613	-	3,069
At 31 December 2015 - restated	**3,455**	**19,849**	**(23,060)**	**243**
At 1 January 2016	3,455	19,849	(23,060)	243
Loss and total comprehensive loss for the year	-	-	(305)	(305)
Share capital issued	725	2,335	-	3,060
At 31 December 2016	**4,180**	**22,204**	**(23,365)**	**3,019**

Share capital
Amounts subscribed for share capital at nominal value.

Share premium
Amounts received by the Company on the issue of its shares above the nominal value of the shares.

Accumulated deficit
Cumulative net gains and losses recognised in the Statement of Comprehensive Income net of amounts recognised directly in equity.

The Notes on pages 12 to 27 form part of these financial statements.

IOG UK Limited
(formerly Oyster Petroleum Limited)

Statement of financial position
at 31 December 2016

Company Number: 08619688

	Note	31 December 2016 £000	31 December 2015 Restated £000
Non-current assets			
Intangible assets: exploration and evaluation	5	6,857	-
Property, plant and equipment	6	-	8
		6,857	**8**
Current assets			
Trade receivables		-	182
Advances to parent company		-	72
Prepayments		202	52
Cash and cash equivalents	11	-	133
Total assets		**7,059**	**439**
Current liabilities			
Trade and other payables	8	(9)	(204)
Advances from parent company	8	(433)	-
		(442)	**(204)**
Non-current liabilities			
Provisions	9	(3,598)	-
Total liabilities		**(4,040)**	**(204)**
Net assets		**3,019**	**243**
Capital and reserves			
Share capital	10	4,180	3,455
Share premium		22,204	19,849
Accumulated deficit		(23,365)	(23,060)
		3,019	**243**

The financial statements were approved and authorised for issue by the Board of Directors on 29 September 2017 and were signed on its behalf by:

Mark Routh
Director

The Notes on pages 12 to 27 form part of these financial statements.

1 Accounting policies

Basis of preparation

IOG UK Limited is a private limited company incorporated and domiciled in England and Wales. The Company's financial statements for the year ended 31 December 2016 were authorised for issue by the Board of Directors on 29 September 2017.

The principal accounting policies adopted in the preparation of the financial statements are set out below. The policies have been consistently applied to all the periods presented, unless otherwise stated.

The financial statements are presented in Pounds Sterling (previously US Dollars) which is also the Company's functional currency. The reason for the change is because the currency of the primary economic environment (i.e. UK gas) is Pounds Sterling with the expenditure being incurred in Pounds Sterling. Amounts are rounded to the nearest thousand unless otherwise stated.

These financial statements have been prepared in accordance with United Kingdom Accounting Standards – FRS 101 and with those parts of Companies Act 2006 applicable to companies preparing their accounts using FRS 101. The Company has taken advantage of the Statement of cash flow disclosure exemption under FRS 101 and to discuss the impact of new standards issued not yet effective.

The preparation of financial statements requires the use of certain critical accounting estimates. It also requires Company management to exercise judgment in applying the Company's accounting policies. The areas where significant judgments and estimates have been made in preparing the financial statements and their effect are disclosed in this Note 1.

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

Going concern

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

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

New and revised accounting standards

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

1 Accounting policies *(continued)*

Joint arrangements

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

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

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

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

1 Accounting policies *(continued)*

Oil and gas exploration, development and producing assets

The Company adopts the following accounting policies for oil and gas expenditures based on the stage of development of each asset:

a) Pre-Licence

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

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

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

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

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

Impairment

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

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

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

1 Accounting policies *(continued)*

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

Development and production ('D&P')
Capitalisation

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

Depreciation and depletion

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

Impairment

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

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

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

Decommissioning

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

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

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

1 Accounting policies *(continued)*

Disposals

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

Foreign currencies

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

The Company translates foreign currency transactions into the functional currency at the rate of exchange prevailing at the transaction date. Monetary assets and liabilities denominated in foreign currency are translated into the functional currency at the rate of exchange prevailing at the reporting date. Exchange differences arising are taken to the Consolidated Statement of Comprehensive Income except for those incurred on borrowings specifically allocable to development projects, which are capitalised as part of the cost of the asset. On the change of functional currency, the comparatives are restated at the rate at the date of the change. This was USD1.48: £1.

Taxation

Current Tax

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

Deferred Tax

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

Deferred tax liabilities are recognised for taxable temporary differences arising on interests in oil and gas assets, except where the Company can control the reversal of the temporary differences and it is probable that the temporary difference will not reverse in the foreseeable future.

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

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

The amount of the asset or liability is determined using tax rates that have been enacted or substantively enacted by the reporting date and are expected to apply when the deferred tax liabilities/(assets) are settled/(recovered). Deferred tax balances are not discounted.

1 Accounting policies *(continued)*

Financial instruments

Cash and cash equivalents

Cash includes cash on hand and demand deposits with any bank or other financial institution. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash which are subject to an insignificant risk of changes in value.

Trade payables

Trade payables and other short-term monetary liabilities are held at amortised cost which, in view of their short-term nature, is not materially different from their undiscounted cost.

Loans and borrowings

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

Financial liabilities

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

Share-based payment transactions

The fair value of share based payments is recognised as an expense or asset with a corresponding increase in equity. The fair value is measured at the date of the transactions by reference to the fair value of assets/ services acquired or the fair value of equity instruments issued.

Critical accounting judgements and key sources of estimation uncertainty

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgements about carrying values of assets and liabilities that are not clear from other sources. Actual results may differ from these estimates.

Key areas of estimation uncertainty are:

Commercial reserves

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

Impairment of assets

Management is required to assess oil and gas assets for indicators of impairment and has considered the economic value of individual E&E assets. The carrying value of oil and gas assets is disclosed in Note 5. Exploration and evaluation assets are subject to a separate review for indicators of impairment, by reference to the impairment indicators set out in IFRS 6, which is inherently judgmental.

Key assumptions used in the value-in-use calculations

The calculation of value-in-use for oil and gas assets under development or in production is most sensitive to the following assumptions: production volumes, commodity prices, capital expenditure and discount rates.

1 Accounting policies *(continued)*

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

Production volumes/recoverable reserves

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

Commodity prices

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

Capital expenditure

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

Discount rates

Discount rates reflect the current market assessment of the risks specific to the oil and gas sector and are based on the weighted average cost of capital for the Company. Where appropriate, the rates are adjusted to reflect the market assessment of any risk specific to the field for which future estimated cash flows have not been adjusted. The Company has applied a risk adjusted discount rate of 10% for the current year (2015: 10%).

Sensitivity to changes in assumptions

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

Decommissioning

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

The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision only affects that period or in the period of revision and future periods if the revision affects both current and future periods.

Share based payment

During the year, the Company issued shares for the transfer of the Vulcan Satellite oil and gas licence interests into the Company. This formed part of the agreement through which Independent Oil and Gas plc acquired the Company. As a result, the fair value of the shares issued has been based on the acquisition agreement for the purchase of the Company by Independent Oil and Gas plc. In deriving a fair value, the various tranches for the agreement have been considered and assigned a fair value based on management's assessment of probability of those payments arising based on the contractual terms and the stage of the underlying projects.

2 Operating loss

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

	£000	£000 Restated
Fees payable to the Company's auditor:		
for the audit of the Company's financial statements	11	17
Exploration and evaluation expenses	164	26
Impairment of oil and gas properties	-	5,416
Depletion, depreciation and amortisation	9	493
Foreign exchange loss	28	117
Management charges net of amounts capitalised as oil and gas assets	30	-

3 Staff costs and directors' remuneration

The Company has no employees, other than the directors who did not receive any remuneration during the year. The parent company provided all management services. Prior period directors' costs are detailed below:

	2015 £000 Restated
Directors emoluments	1,127
Termination fees	149
Pension contributions	56
	1,332

The Company did not provide Directors and Officers Liability insurance during the year (2015 – nil). The Company had no employees at 31 December 2016 (2015: average number of persons employed – 6, total). The total staff costs for the prior year include those Directors costs above and are as detailed below.

	2015 £000 Restated
Wages and salaries	1,373
Social security costs	164
Pension contributions	110
	1,647

3 Staff costs and directors' remuneration (continued)

Costs in the prior year, in relation to the highest paid director:

	2015 £000 Restated
Directors emoluments	238
Termination fees	30
Pension contributions	16
	284

4 Taxation

a) Current taxation

There was no tax charge during the year. Applicable expenditures will be accumulated for offset against future charges. The reasons for the difference between the actual tax (credit)/charge for the year and the standard rate of corporation tax in the United Kingdom applied to (losses)/profits for the year are as follows:

	2016	2015
	£000	£000
		Restated
Loss for the year	(305)	(8,830)
Tax expense	-	-
Loss before taxes	(305)	(8,830)
Expected tax (credit)/charge based on the standard rate of United Kingdom corporation tax at the domestic rate of 40% (2015: 50%)	(122)	(4,415)
Expense not deductible for tax purposes	56	2,984
Effects of group relief / other reliefs	-	(3)
Unrecognised losses carried forward	66	1,434
Total tax expense	-	-

The Company is considered to be a company which profits from oil extraction and oil rights in the UK and the UK Continental Shelf and is, therefore, subject to corporation tax on taxable profits at a rate of 30% or 19% where the profits fall within the limit of small companies' rate. On 18 March 2015, the UK Budget 2015 announced a reduction in the rate of Supplementary Charge by 10% from 1 April 2015. On 16 March 2016, the UK Budget 2016 announced a further 10% reduction in the rate of Supplementary Charge, down from 20% to 10%, giving an effective headline rate of UK tax for upstream oil activity of 40%.

b) Deferred taxation

The Company has pre-trading expenditure which is available for offset against future taxable profits within a certain period and other temporary differences which exceed the non-deductible temporary differences by £20,985,000 (2015: £17,300,000 restated). Deferred tax assets have not been recognised in respect of these temporary differences due to the uncertainty of the availability of suitable future profits from which they can be deducted.

Due to the nature of the Company's exploration activities there is a long lead time in either developing or otherwise realising the value of exploration assets. A deferred tax asset will only be created if there is reasonable certainty that profits will be earned in the foreseeable future.

5 Intangible assets

	Exploration & evaluation assets £000	IT Software assets £000	Total £000
At cost			
Balance at 31 December 2015 - restated	13,086	140	13,226
Additions	6,857	-	6,857
Disposals	(13,086)	(140)	(13,226)
At end of the year	6,857	-	6,857
Depreciation & Impairment			
Balance at 31 December 2015 - restated	(13,086)	(140)	(13,226)
Disposals	13,086	140	13,226
At end of the year	-	-	-
Net book value			
At 31 December 2016	**6,857**	-	**6,857**
At 1 January 2016	-	-	-

On 14 June 2016, the Company acquired interests in the Vulcan Satellites from Verus Petroleum (SNS) Limited and Verus Petroleum (CNS) Limited in exchange for shares in the Company. For accounting purposes, this acquisition has been treated as a share based payment. The fair value of the share based payment was determined to be the fair value of the consideration of the subsequent sale of Oyster Petroleum Limited to Independent Oil and Gas plc. This acquisition involved the payment of £1 million in consideration, £750k in deferred consideration with a further £3.25 million being payable on the achievement of milestones by Independent Oil and Gas plc. As part of the agreement, the Company became obligated for the rehabilitation which is recognised in Note 9.

6 Property, plant and equipment

	Other assets £000
At cost	
Balance at 31 December 2015 - restated	523
Disposals	(523)
At end of the year	-
Accumulated depletion, depreciation and amortisation	
Balance at 31 December 2015 - restated	(515)
Disposals	(515)
At end of the year	-
Net book value	
At 31 December 2016	-
At 1 January 2016	**8**

7 Interests in production licences

All Company UK Offshore Production Licences are held 100% by IOG UK Limited.

8 Current liabilities

	31 December 2016 £000	31 December 2015 £000 Restated
Advances from parent company	433	69
Trade Creditors	-	135
Accruals	9	-
	442	204

The parent company has undertaken not to request repayment of advances until the Company has sufficient resources to make payment.

9 Non-current liabilities

	31 December 2016 £000	31 December 2015 £000 Restated
Abandonment provision	(3,598)	-
	(3,598)	-

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

10 Equity share capital

	Shares Number	Share capital £000
Allotted, issued and fully paid		
Ordinary shares of £1 each		
At beginning of year	3,455,100	3,455
Issued during the year	725,000	725
At end of year	**4,180,100**	**4,180**

The shares were issued during the year in exchange for the Vulcan Satellites licences. Further details are provided in Note 5.

11 Cash and cash equivalents

	31 December 2016 £000	31 December 2015 £000 Restated
Cash at bank and in hand	-	133

12 Financial instruments

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

Financial risk management
The Board seeks to minimise its exposure to financial risk by reviewing and agreeing policies for managing each financial risk and monitoring them on a regular basis. At this stage, no formal policies have been put in place to hedge the Company's activities against the exposure to currency risk or interest risk and no derivatives or hedges were entered during the year.

General objectives, policies and processes
The Board has overall responsibility for the determination of the Company's risk management objectives and policies and, whilst retaining ultimate responsibility for them, it has delegated the authority for designing and operating processes that ensure the effective implementation of the objectives and policies to the Company's finance function. The Board receives regular reports from the Chief Financial Officer through which it reviews the effectiveness of the processes put in place and the appropriateness of the objectives and policies it sets.

The Company is exposed through its operations to the following financial risks:

- Liquidity risk;
- Cash flow interest rate risk; and
- Foreign exchange risk

The overall objective of the Board is to set policies that seek to reduce these risks as far as possible without unduly affecting the Company's competitiveness and flexibility. Further details regarding these policies are set out below:

Principal financial instruments
The principal financial instruments used by the Company, from which financial instrument risk may arise are as follows:

- Intercompany advances
- Cash and cash equivalents
- Trade and other payables

12 Financial instruments *(continued)*

Principal risks

Liquidity risk

The Company holds no cash resources but is funded entirely through its parent company and therefore has no liquidity risk separate from that of its parent company. Rolling cash forecasts identifying the liquidity requirements of the Company are produced frequently. These are reviewed regularly by management and the Board and then passed to its parent company to ensure that sufficient financial resources are made available.

31 December 2016	6 months or less £000	Greater than 6 months, less than 12 months £000	Greater than 12 months £000	Total undiscounted £000	Carrying amount £000
Current financial liabilities					
Advances from parent	-	433	-	433	433
	-	**433**	**-**	**433**	**433**
31 December 2015					
Current financial liabilities					
Trade and other payables	135	-	-	135	135
Advances from parent	-	69	-	69	69
	135	**69**	**-**	**204**	**204**

Cash flow interest rate risk

As cash is non-interest bearing, and creditors are subject to only fixed interest rates with the exception of advances from parent company, variations in commercial interest rates would have no impact upon the Company's result for the year ended 31 December 2016.

12 Financial instruments *(continued)*

***Principal risks** (continued)*

Foreign exchange risk
The Company carried limited exposure to foreign exchange risk during the period to 31 December 2016. Its costs are incurred almost entirely in Pounds Sterling and it has no current revenues. It is the Company's policy to enter transactions in its functional currency wherever possible and it monitors any currency exposures regularly. The Company considers this minimises any foreign exchange exposure. Consequently, no formal policies have been put in place in order to hedge the Company's activities to the exposure to currency risk.

Capital management
The primary objective of the Company's capital management is to maintain appropriate levels of funding to meet the commitments of its forward programme of exploration and development expenditures, and to safeguard the entity's ability to continue as a going concern and create shareholder value.

13 Financial commitments and contingent liabilities

The Company has authorised and committed to capital expenditure in the current year as part of the exploration and development work programme for the licences in which it participates:

	31 December 2016 £000	31 December 2015 £000
Contracted	89	-
	89	-

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

14 Related party transactions

Except for funds received from the ultimate parent company for transactions paid on behalf of the company as disclosed in Note 8, there were no additional related party transactions in the year.

15 Ultimate parent company

The Company's immediate parent undertaking is Independent Oil and Gas plc, a company registered in the United Kingdom and whose registered address is 60 Gracechurch Street, London EC3V 0HR. This parent undertaking is the holding company of both the largest and the smallest group for which group accounts are prepared and of which the Company is a member.

16 Subsequent events

There were no key events after 31 December 2016.