

Annual report and accounts 2016

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## INTRODUCTION

IGas is a leading British oil and gas exploration and production company, whose businesses have been operating safely and environmentally responsibly onshore, for decades.

### OUR AIM

To provide a secure supply of energy in collaboration with the communities in which we operate and deliver value for all our stakeholders.

### OUR STRATEGY

Developing shale portfolio

Reserves and production growth

Local and national engagement

### HIGHLIGHTS

Revenues <b>£30.5m</b>	Underlying operating profit <b>£3.7m</b>	Net debt <sup>2</sup> <b>£99.7m</b>	Net assets <b>£70.5m</b>
EBITDA <sup>3</sup> <b>£10.2m</b>	Loss after tax <b>£(32.9m)</b>	Cash and cash equivalents <b>£24.9m</b>	Net cash from operating activities <b>£12.4m</b>

<sup>1</sup> Underlying operating profit (excludes gain on oil price derivative), charges, and finance-based payments, and impairment.

<sup>2</sup> Net debt is borrowings less cash and restricted cash.

<sup>3</sup> EBITDA is earnings before net finance costs, tax credit, depletion, depreciation and amortisation, and impairments.

<sup>4</sup> Nine months ended 31 December 2015.

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Lifecycle of a Well

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**What are our priorities?**

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**How are we progressing?**

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Watch our corporate video  
[www.igasplc.com/what-we-do](http://www.igasplc.com/what-we-do)

[www.igasplc.com](http://www.igasplc.com)

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IGas [twitter.com/igasenergy](https://twitter.com/igasenergy)

IGas Energy plc Annual report and accounts 2016

## LIFECYCLE OF A WELL

### WHAT DO YOU SEE AND WHEN?

The diagrams below illustrate the different stages in the development of UK shale gas production pads within a notional 10km by 10km area which represents the size of a typical licence block.

#### Seismic

We gather geological information through 2D and 3D imaging technology called seismic acquisition. Wave signals travel through the various sub-surface rock layers and at points where the rock type changes, will be reflected back to the surface giving us a detailed image of the subsurface

#### Exploration/Appraisal

During the exploration phase, which can last from three to six months, typically a small vertical well is drilled and rock samples called cores taken for analysis. After examining the data taken during the exploration phase, the well may be tested before making a decision about whether it will be commercially viable. Depending on the geology, this stage may involve carrying out one or more hydraulic fracturing (fracking) procedures

➔ Read how regulatory bodies are involved at each stage on pgs 14 & 15

## Production

If the development is commercially viable, we will apply for planning consent for a full production site and a pad development plan ("PDP") will be submitted to the Department for Business, Energy and Industrial Strategy ("BEIS").

The size of a production pad will depend upon location and the specific geology but will normally be about two hectares (five acres) in size. Once drilling has been completed, which typically would take 12-24 months, the rig is released and activity on the surface will lessen greatly as wells start to produce natural gas.

## Restoration

When a site comes to the end of its life we go through a process of site restoration. It is a requirement of planning and also of the EA permitting. We have to demonstrate there has been no adverse impact on the environment and the site is restored to its original condition.

## LIFECYCLE OF A WELL CONTINUED AN INTEGRAL PART OF INFRASTRUCTURE

### Representation of an established site in production

We believe a material UK shale gas industry can be developed around our communities in a sensitive and measured manner. By employing the latest subsurface drilling technology, surface footprints can be minimised. Once in production, sites will produce gas for 20 years or more, with little visual, noise, lighting or traffic impact

In production, gas would typically be piped to a central gathering centre or connected directly to the national grid utilising existing infrastructure, where possible

## CHAIRMAN'S STATEMENT SUSTAINED PROGRESS

We remain grateful to all of our stakeholders for their ongoing support and now that we have successfully completed the refinancing process we can look forward to benefiting from a strong balance sheet.

### Overview

Over the course of the last two years, we have been de-leveraging the balance sheet through a combination of farm-outs and Bond buy-backs as well as through the amortisation of the Secured Bonds. However, despite the oil price improving considerably from lows in the first quarter of 2016 and the de-leveraging of the balance sheet, the Board has for some time considered that significant corrections to the Company's capital structure were necessary to achieve a structure that is sustainable in the current oil price environment, as well as enabling *the business to capitalise on future value accretive opportunities.*

Accordingly, much of the Board's activity over the year related to the restructuring of the Company's balance sheet, which I am pleased to report, successfully concluded in April 2017. We have now significantly reduced our debt and are cash generative at current oil prices. With up to \$230 million of gross shale carry in place and having now secured planning applications, the Company is poised to capitalise on its potential.

I am pleased that the business continues to deliver operationally whilst retaining a sharp ongoing focus on managing its costs.

We are at a critical juncture in the UK for the future of our energy mix and supply. At the peak of North Sea production we were net exporters of gas but we now face future import dependency levels of up to 80% if we are unable to address our supply challenges. With the demise of coal production, UK sourced gas is increasingly important as part of the energy mix for security of supply whilst also providing environmental benefits compared to imported gas. The UK needs a secure supply of gas as a bridging fuel until *renewable sources can provide sufficient stable energy for society's needs.*

### Performance

The teams have worked hard during the year to keep production steady and average production for the year was 2,355 boepd.

We have secured a number of planning consents for future conventional projects across the country as part of our strategy to replace underlying decline, grow production in the longer term and monetise our stranded gas assets.

In July 2016, DeGolyer & MacNaughton ("D&M", a leading international reserves and resources auditor, completed an independent evaluation of both our conventional and shale interests. Their estimates show an increase in proven and probable reserves to 13.77 mmbbl (as at 30 June 2016) and subsequently, based on these reserves, IGas valued the 2P reserves (post-tax) at US\$181 million based on market consensus price curve (as at 30 October 2016).

D&M have also estimated shale gas net risked prospective resources of 2.5Tcf, which in oil equivalent terms is c 440 mmbbl. The estimate takes into account a recovery factor, adjustments for productive areas and geological risk but, even heavily risked, this is still a significant number for IGas and to give it a context, equivalent to almost the entire UK gas consumption for a year.

We have also enjoyed success in moving our appraisal assets forward. We have been granted planning permission for two sites in North Nottinghamshire and in the North West we are in the process of site selection and pre-application preparations.

### Health, Safety and the Environment

Health and safety is a priority across the Company and particularly in the current lower cost environment, we will not compromise on the integrity and safety of our people and operations. We continue to set ourselves challenging HSE targets to drive continuous improvement in all these areas. All of our production and drilling operations retain their ISO 14001 and 9001 certifications.

This year, we were proud to have received RoSPA's President's Award, which is awarded for ten consecutive years of Gold Awards for our health and safety performance. We are very proud of this great achievement and this award demonstrates our ongoing commitment to continuing to raise HSE standards.

As an operator of producing assets we are extremely conscious of our role in the communities in which we operate and that any activity is done safely and with as little impact to the environment as possible.

We have a long history of giving back to the communities in which we operate and one way we do this is through the awards made annually by our IGas Community Fund. The Community Fund exists to help make a positive difference to community and voluntary organisations and our goal is to continue making sustainable donations and to make commitments in terms of time, supporting and helping the community.

### Board changes

I have served as Chairman of the Company since I founded it in 2003. In that time IGas has grown to be one of the largest onshore oil and gas players in the UK, with one of the largest and most diverse shale acreage positions. Post the recent refinancing, the Company is poised to capitalise on its potential. Accordingly, I have decided that this is the right time to retire from the Board, which I will do at the AGM in June 2017. It has been a privilege to lead IGas through many milestones to become the Company it is today. I feel that I am leaving the Company in capable hands, with a very strong executive team.

I am delighted that Mike McTighe is to succeed me as Chairman. Mike joined the Board in August 2016 as Non-executive Deputy Chairman with a wealth of experience and wide industry and regulatory knowledge. Mike is currently Chairman of WYG Ltd, the project management and technical consultants, Openreach, Together Financial Services Ltd, Arran Isle Ltd and Gortmullan Holdings Ltd.

John Bryant will also be retiring from the Board at the AGM. John has served on the Board for the last nine years, since the Company was first listed on AIM. We have all benefited greatly from his independent advice and significant contribution to the Company and we wish him the very best going forward.

In August 2016, Non-executive Director, Robin Pinchbeck stepped down from the Board having served on the Board for over four years. I would like to thank Rob for his valuable contribution and commitment to the Board and the Company during his tenure and wish him well for the future.

We also welcome to the Board, following the successful fundraising, Philip Jackson and Tushar Kumar of Kerogen Capital as Non-executive Directors effective from 26 April 2017. Philip Jackson was appointed to the Remuneration Committee and Nomination Committee and will be appointed as Chairman of the Remuneration Committee with effect from the conclusion of the AGM. Tushar Kumar was appointed as a member of the Audit Committee.

Philip has over 30 years' experience in investments and corporate finance in energy and infrastructure projects. He started his career with the energy team at Ashurst LLP before moving to its client Trafalgar House plc, one of the UK's leading independent oil and gas companies at the time.

Tushar has 15 years' experience in investing, investment banking and equities, working with a range of oil and gas companies including upstream, downstream, majors and National Oil Companies across Europe, the Middle East and Asia.

It has been agreed to reduce the size of the Board and therefore John Blaymires and Julian Tedder will resign from the plc board with effect from the conclusion of the AGM. They will remain directors of the operating companies and continue to hold their executive roles, which will include regular attendance at Board meetings.

I would like to thank the Board for all that they have done this year and the executive team who have worked resolutely to steer the business through a number of challenges. They deserve our thanks as do all our employees.

### Outlook

As we look forward to 2017, we see a number of opportunities for the business. An improving oil price environment and the fall in sterling following the referendum, have boosted the economics for our production business as well as emphasising the importance of shale development in Britain. Technological advances in shale extraction, principally in the United States, bring further benefits for efficiencies and costs and we, as well as others in the industry, are set to be drilling this year as we start to roll out our shale development plan.

In the low oil price environment, the Board's priority has been to take considered and measured actions to reset business plans to meet near-term priorities. Cost and capital discipline remain key to ensuring we are well placed to deliver maximum value from our existing production whilst maintaining the capabilities needed to safely and successfully develop these reserves and our shale resources for the benefit of the UK; whilst always fully respecting the environment and the local communities within which we operate.

We remain grateful to all of our stakeholders for their ongoing support and now that we have successfully completed the restructuring process we can look forward to benefiting from a strong balance sheet, as well as a carried work programme of up to \$230 million from our partners.

### Francis Gugen

Non-executive Chairman



## HOW WE CREATE VALUE

### OUR BUSINESS MODEL

Our strategy is to build a material onshore energy company in Britain in collaboration with the communities in which we operate and deliver value for all our stakeholders.

## WHAT MAKES US DIFFERENT

### **Disciplined asset portfolio management**

We are focused on the continuous improvement of the performance of our maturing assets, assets which historically had high operating costs and low levels of production.

IGas is focused on core, high potential areas with its partners and will therefore relinquish licences that do not fit with its criteria for future value creation.

### **Development of potential resources**

IGas operates one of the largest net acreage positions in the UK. Rigorous technical analysis and commercial evaluation help us to identify and advance the next generation of producing assets

### **Optimisation of assets**

To optimise economic production we constantly seek initiatives to extend asset uptime and optimise our processes and costs whilst continuously monitoring and evaluating results. A clear focus on applied, innovative technology that augments value and a disciplined investment approach are key

➤ **Read more on pg 10**

➤ **Read more on pg 11**

➤ **Read more on pg 12**

**Our community**

We build relationships with our stakeholders in the communities we operate in.

**Our people**

We constantly strive to develop our employees and their knowledge.

Find out more

➤ **Risks and uncertainties pg 34**

➤ **Key performance indicators pg 28**

➤ **Sustainable and responsible business pg 36**

**Integrated management tools and financial management**

Controlling costs and managing operations efficiently allows us to manage the business effectively in a volatile oil price environment and we continually manage our financial and business assets utilising a common operational platform throughout the organisation

This platform enables us to meet goals throughout the organisation, from locating and extracting new resources to improving efficiency and ultimately improving our bottom line

➤ **Read more on pg 13**

**Operating responsibly**

As a responsible operator we are focused on achieving safe and sustainable operations, minimising any adverse environmental and social impacts, and achieving the highest standards of health and safety throughout the business.

➤ **Read more on pg 14**

**Local and national engagement**

The way in which we conduct ourselves with our host communities and other key stakeholders and our record on health, safety and the environment, is the bedrock for all of our operations, and is crucial to our success as a business

➤ **Read more on pg 15**

## WHAT MAKES US DIFFERENT DISCIPLINED ASSET PORTFOLIO MANAGEMENT

IGas has producing assets in Scotland, East Midlands and the Weald Basin and is seeking to develop shale resources across its extensive acreage position focusing on the East Midlands, Yorkshire and the North West of England.

There have been over 2,000 wells drilled onshore in the UK. IGas currently produces oil and gas from 102 wells across 28 fields.

IGas actively manages its portfolio to ensure the Company's capital and people are focused on assets that can produce good returns and where the Company is best placed to add future value in collaboration with its partners.

### Scotland

#### Number of fields

1

#### Producing wells

1

### East Midlands & Yorkshire

#### Number of fields

17

#### Producing wells

70

### North West

#### Number of fields

1

#### Producing wells

3

### The Weald

#### Number of fields

9

#### Producing wells

28

# DEVELOPMENT OF POTENTIAL RESOURCES

Following licence awards in the 14<sup>th</sup> Onshore Licensing Round, formally awarded in July 2016, IGas now has an area of over 1 million acres (gross) (c.0.63 million acres net) under licence.

Our total gross carried shale work programme was up to \$230 million as at 31 December 2016.

Our focus is on moving our shale development plan forward through drilling further appraisal wells and bringing forward applications for flow testing

We continue to identify opportunities in our conventional asset base and are moving planning applications forward with success so that we are in a position to take Final Investment Decisions ("FIDs") on projects as appropriate.

## 9

New licences in the 14<sup>th</sup> Round

## 5

New shale licences

## 4

New conventional licences

### Scotland

#### Number of licences

3

#### Net acreage

35k

### East Midlands & Yorkshire

#### Number of licences

24

#### Net acreage

296k

### North West

#### Number of licences

11

#### Net acreage

146k

### The Weald

#### Number of licences

16

#### Net acreage

150k

## WHAT MAKES US DIFFERENT CONTINUED OPTIMISATION OF ASSETS

We have introduced a proprietary GIS mapping system across the business.

### Subsurface

The initial step of the Site Selection workflow is to identify a geological resource. Using the appropriate methods and tools our technical team evaluate the subsurface resources. A key output from this stage is the proposed location of the subsurface targets of the well(s).

### Surface

Once the subsurface locations are determined the possible corresponding surface locations relating to these are selected. An initial analysis of the locations against surface features is carried out. Initially Ordnance Survey datasets are used to begin to evaluate the best sites.

### Environment

The available sites are overlaid with the environmental information including the *Groundwater Source Protection Zones*, *Ancient Woodlands*, *National Parks*, *Sites of Special Scientific Interest*, and *Areas of Outstanding Natural Beauty*. Historic and Cultural Heritage areas and locations are also considered in this stage.

### Community

The consideration of local communities is a fundamental aspect of the site selection process. In this step the proximity to houses, schools, hospitals and other sensitive buildings is considered. The pertinent infrastructure, e.g. roads, grid connections, local supply chain and power consumers, is also considered to optimise the development and operation of the sites.

### Site selection

This is the final stage of a process that considers more than 20 different datasets that are thoroughly analysed in order to make a selection that attempts to minimise the environmental and social impact of our exploration and development activities, whilst maximising technical chance of success.

# INTEGRATED MANAGEMENT TOOLS & FINANCIAL MANAGEMENT

Across the business we utilise proprietary software to optimise and inform operational and financial decisions.

Our financial strategy is to maintain flexibility and retain balance sheet strength.

➤ **Read about our successful refinancing in the financial review on pg 30**

STRATEGIC REPORT

CORPORATE GOVERNANCE

FINANCIAL STATEMENTS

## GIS PROVING ITS VALUE

Our Geographic Information System ("GIS") has proved to be an important tool in optimising our assets whilst seeking to minimise the social and environmental impacts of our activities

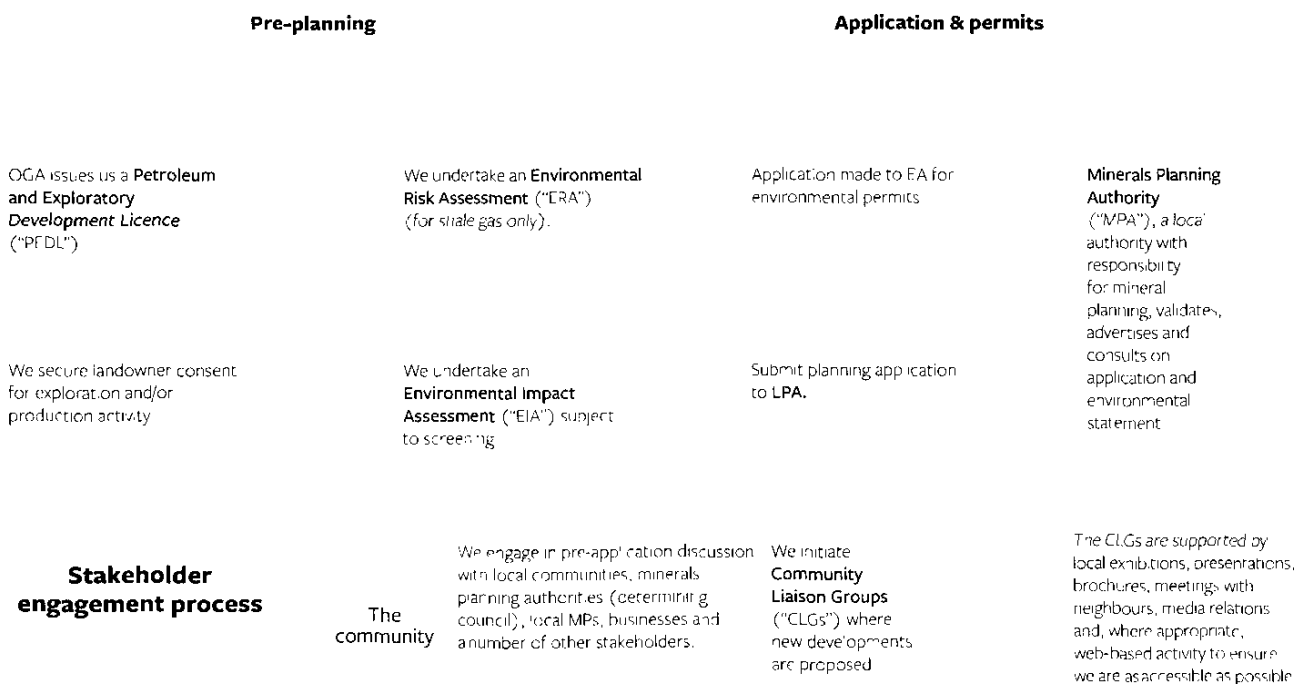
Using the most up to date technologies and the appropriate datasets we use the GIS to run geospatial workflows that optimise the site selection process ensuring that all the important variables are taken into account in the process including water resources, environmentally sensitive areas, as well as local communities

This technology is available to the wider business via a single entry point and an integrated management tool, connecting business systems and creating a common work platform for all our teams.

Watch our video in conjunction with GIS  
[www.youtube.com/watch?v=EKPQnvtWvow](http://www.youtube.com/watch?v=EKPQnvtWvow)

## WHAT MAKES US DIFFERENT CONTINUED OPERATING RESPONSIBLY

Before any operation can begin, we must pass rigorous health and safety, environmental and planning permission processes.



## SAFETY AND THE ENVIRONMENT

The UK has one of the toughest regulatory regimes with much *higher standards than other countries, including the US.*

There are numerous standards and guidelines that we have to conform to, irrespective of the type of well drilled, and we are subject to regular inspections (both planned and unannounced) to ensure that we are always fully compliant.

Environmental monitoring is a key activity that we undertake before (site construction), during and after operational activity.

Many scientific authorities, such as the Royal Society and Royal Academy of Engineering, have stated that it is safe to extract shale gas provided it is properly regulated.

## WHO REGULATES THE UK ONSHORE OIL AND GAS INDUSTRY?

**Health and Safety Executive** ("HSE")

**Environment Agency** ("EA")

**Department for Business, Energy & Industrial Strategy ("BEIS") and the Oil & Gas Authority ("OGA")**

**Scottish Environment Protection Agency ("SEPA")**

**Local Planning Authority ("LPA")**

Further information can be found at [www.ukoog.org.uk/environment/regulation](http://www.ukoog.org.uk/environment/regulation)

Watch the EA video on shale gas industry regulation [www.youtube.com/watch?v=usebz4nqAtI](http://www.youtube.com/watch?v=usebz4nqAtI)

Source: "Getting ready for UK shale gas Review" commissioned by UKOOGs, April 2014  
[www.ukoog.org.uk/images/stories/Getting\\_ready\\_for\\_UK\\_shale\\_gas\\_Review\\_Finally\\_2014\\_04\\_14.pdf](http://www.ukoog.org.uk/images/stories/Getting_ready_for_UK_shale_gas_Review_Finally_2014_04_14.pdf)

# LOCAL AND NATIONAL ENGAGEMENT

## Consultation and approvals

Council response  
Planning officer  
recommendation.

MPA  
committee  
meets and  
determines  
planning  
application

Notify HSE 21  
days in advance  
of drilling  
activity

OGA well consent granted  
OGA consent for hydraulic  
fracturing (shale).

## Drilling/appraisal/ development

EA permits  
issued.

Notify EA of intent to  
drill under the Water  
Resources Act 1991

Views of statutory  
consultees and local  
communities sought

Local exhibition/information  
days are set up

We provide the  
community with  
progress updates  
to address any  
issues that may arise  
regarding site activity

## Community engagement continues throughout the lifecycle of development

➤ **Read more on how we engage with the communities we work with on pg 36**

## COMMUNITY ENGAGEMENT THIS YEAR

**IGas businesses have been operating onshore in Britain for over 30 years and it is imperative to us that we are seen as an integral part of the local communities in which we operate.**

It is important that we communicate effectively with local communities, particularly when we are planning new developments. We have set up various ways of reaching out to our local stakeholders, based on the specific needs of each community.

In North Nottinghamshire a comprehensive community engagement programme is ongoing for our two proposed projects at Springs Road and Tinker Lane. Community Liaison Groups have been established for both projects, allowing representatives from local parishes to access information and ask questions directly of IGas personnel. All current information related to the developments is posted on our community website – [www.igas-engage.co.uk](http://www.igas-engage.co.uk)

In addition to consultation events, newsletters have been sent out to over 5,000 homes in the areas and we continue to engage with local communities and other stakeholders as appropriate. Community engagement will continue throughout the lifecycle of these projects.

In the Weald Basin in the South East of England, a number of planning applications were submitted for Singleton, Albury, Bletchingley and Stockbridge and also for our gas monetisation project at Lybster in Scotland. We held community events for all these projects.

In the North West, a seismic survey update leaflet was distributed to over 13,500 homes in the Chester, Ellesmere Port, Frodsham and Helsby areas, to keep communities updated and to address frequently asked questions.

We will commence a comprehensive community engagement programme associated with sites as they are confirmed.

Information will be found at  
[www.igas-engage.co.uk](http://www.igas-engage.co.uk)



## OUR MARKETPLACE

### INDUSTRY, POLITICAL AND REGULATORY REVIEW

2016 was a tumultuous year in the global energy markets. The year began with crude oil prices plummeting to multi-year lows of close to \$25 per barrel due to the consistent demand and supply mismatch of crude oil markets worldwide. Gas prices also declined, albeit not by the same quantum.

With the softness in the oil markets creating pressure on the finances of the Middle East countries, the Organization of Petroleum Exporting Countries ("OPEC") members decided to hold an unplanned meeting in September 2016 to revisit their stance on their rising oil production. OPEC announced its plans to put a ceiling on their cumulative production to reverse the decline in oil prices. The final terms of the OPEC arrangement were announced in November 2016, where the members decided to reduce their cumulative oil output by 1.2 million barrels of oil per day over time. In addition to this, the Non-OPEC members, such as Russia, also supported OPEC's move by offering to bring down their production by roughly 600,000 barrels of oil per day.

Despite the many ups and downs across the year, 2016 ended with the oil price nearly twice as high as where it started, pointing to a more balanced market in the months ahead.

Economists predict the global demand for energy is set to continue to grow over the next two decades as prosperity increases and the world's population rises. However, the mix of fuels used will change, driven by technological advances and environmental concerns, and demand will grow more slowly than in the past as energy is used more efficiently. The gradual decarbonisation of the fuel mix is set to continue, with renewables, the fastest growing fuel source, quadrupling over the next 20 years. Even so, fossil fuels are forecast to remain the dominant source of global energy supplies (77%) in 2035<sup>1</sup>.

It is primarily an energy security issue for me. We import a lot of gas. If we have the capacity to generate our own gas in this country and we can do it while reassuring people about the impact on the environment, personally, I think it would be irresponsible to future generations not to answer the question can we do it.

**Nick Hurd MP**

Minister of State for Climate Change and Industry

Closer to home, the decline in North Sea oil and gas production has meant the UK has become increasingly dependent on imports of energy. The last time the UK exported more electricity than it imported was the winter of 2009/10 – since then it has consistently been a net importer of power through giant sub-sea cables to France and the Netherlands. In 2015, 50% of Britain's crude imports came from Norway and 35% came from OPEC.

The biggest political event of 2016 was arguably the result of the referendum on the UK's membership of the EU, which will influence the political and economic climate for many years to come. In the immediate aftermath Theresa May was appointed Prime Minister and proceeded to make some significant changes to Government. This included the merger of the Department of Energy and Climate Change ("DECC") and Department for Business, Innovation and Skills ("DBIS") to create the Department for Business, Energy and Industrial Strategy ("BEIS"). The newly created department brings together responsibility for business, industrial strategy, and science and innovation with energy and climate change policy.

<sup>1</sup> Source: BP Energy Outlook <http://www.bp.com/content/dam/suppliment/energy-economics/energy-outlook-2017/bp-energy-outlook-2017-global-insights.pdf>  
<sup>2</sup> Source: <https://www.gov.uk/government/organisations/department-for-business-energy-and-industrial-strategy>

## USES OF NATURAL GAS

<b>Heating and cooking</b>	<b>Electricity</b>	Soon after taking office, the new Prime Minister lent her support to recognising the increasing importance that energy and infrastructure will play following the referendum. Home grown energy is critical in this and UK shale will be an important constituent in our energy mix and has the potential to create a significant supply chain and create and protect thousands of jobs in the UK.
<b>Manufacturing</b>	<b>Recycling</b>	The Prime Minister also launched a consultation on a Shale Wealth Fund <sup>1</sup> which proposed to make direct payments from the fund to residents in fracking areas, paid for by tax on production profits. Views were sought on a variety of related issues such as how funds are spent, how the Fund should be administered and how funding will be allocated to different stakeholder groups. We await Government's response.
<b>Food production</b>	<b>Transport</b>	The Government also confirmed a restriction around certain protected areas on surface activities relating to shale gas exploration and production and ruled out setting national limits on the number of fracking sites in shale gas areas, and a minimum distance between wells and residential properties.

In November 2016, the Scottish Government published a series of independent research papers on the subject of shale gas exploration and production<sup>2</sup>. The studies demonstrated the economic case for shale exploration and showed that the risks associated with operations can be mitigated. The Scottish Government announced that it would launch an associated consultation coordinated with the publication of their Climate Change Plan, and the consultation on Scotland's draft Energy Strategy.

With momentum and support for the UK's onshore industry building in 2016, the start of 2017 has continued this theme with the launch of a consultation from the UK Government on an Industrial Strategy<sup>3</sup>. Looking at a range of challenges including long term energy costs, security of supply, and greater resource and energy efficiency, the Industrial Strategy has provided an excellent opportunity to outline how the onshore industry and, in particular gas from shale, will be vital to a strong UK for years to come.

On page 19 Ken Cronin, Chief Executive of UKOOG, reflects on the progress of UK shale in 2016.

<sup>1</sup>Source: [www.gov.uk/government/uploads/attachment\\_data/file/561466/shale-wealth-fund.pdf](http://www.gov.uk/government/uploads/attachment_data/file/561466/shale-wealth-fund.pdf)

<sup>2</sup>Source: [www.gov.scot/Topics/business/Industry/Energy/onshore/coalandgas](http://www.gov.scot/Topics/business/Industry/Energy/onshore/coalandgas)

<sup>3</sup>Source: [www.berr.gov.uk/consult/condocs/industry/industrialstrategy/industrialstrategy.htm\\_campaign=govout&source=gov.uk&utm\\_medium=referral&utm\\_content=home-page](http://www.berr.gov.uk/consult/condocs/industry/industrialstrategy/industrialstrategy.htm_campaign=govout&source=gov.uk&utm_medium=referral&utm_content=home-page)

## CHIEF EXECUTIVE'S STATEMENT INVESTING IN THE FUTURE OF ENERGY INDEPENDENCE

Our strategy is to build a material onshore energy company in Britain in collaboration with the communities in which we operate and deliver value for all our stakeholders.

Against the challenging commodity price backdrop of the last year, IGas has continued to work hard to deliver operationally and has made solid progress across many areas of the business.

Given the macro environment, the focus has been on operational efficiencies including further reductions to our cost base alongside improvements in an already strong safety performance.

In early April 2017, we completed a significant financial restructuring which was ongoing throughout much of the second half of 2016. We have been delighted to attract well known and experienced investors such as Kerogen Capital, alongside other new institutional investors and were pleased with the level of support received for the transaction from our existing bondholders and shareholders.

This restructuring has significantly improved our financial position, and we are now generating positive operating cashflow at current oil prices and accordingly, are well positioned for the future.

### **Production assets**

Production for 2016 was 2,355 boepd, marginally below guidance of c 2,400-2,600 boepd, which was impacted by two key factors. Firstly, the Group reduced its capital expenditure budget in order to preserve cash and focus on projects that maximised economic benefits thereby delaying some planned production. In addition, the Group had unplanned downtime as a number of wells were worked over during the summer.

There remains significant potential in our existing producing fields. We have identified some infill drilling opportunities and have since applied for and secured planning permissions for infill drilling at Singleton. In addition, we received a field life extension at Stockbridge, both of these projects being in the Weald Basin.

We have also made good progress on our incremental projects during the year. Planning permissions were granted for our gas monetisation projects at Albury, Bletchingley, Lybster and Singleton and commercial discussions at Lybster are now at an advanced stage.

During the year, DeGolyer & MacNaughton ("D&M"), a leading international reserves and resources auditor, undertook a full Competent Persons Report ("CPR") across our assets. Their estimates confirmed a continuing high conventional reserves replacement driven principally by successful well operations, decreasing field decline rates and further lowering of operating costs.

The D&M evaluation also included an estimate of net contingent conventional resources of 21.8 mmbbl for IGas properties. These resources include oil and gas resources within producing and undeveloped fields that can be readily developed with infill drilling and gas monetisation projects.

The oil price, although having recovered from its lows in early 2016, is still relatively low and we remain focused on cash generation and capital discipline. Significant potential remains within our existing assets and should commodity prices improve we will accelerate our capital investment in projects that have short payback periods and attractive internal rates of return.

### Appraisal assets

We operate one of the largest acreage positions in the UK, of over 1 million acres (gross), with a total gross carried shale work programme of up to \$230 million as at 31 December 2016.

We continue to move our shale development plan forward. In November 2016, following a recommendation from the Planning Officer, Nottinghamshire County Council's Planning and Licensing Committee granted planning consent for our application to develop a hydrocarbon wellsite and drill up to two exploratory wells in Misson Springs, North Nottinghamshire. In March 2017, we were granted planning permission for one exploratory well at our second site in North Nottinghamshire, at Tinker Lane. Both permissions are subject to the completion of Section 106 planning agreements which are both currently being agreed with the requisite authorities.

## UK SHALE GAS DEVELOPMENT

UKOOG is the representative body for the UK onshore oil and gas industry. The organisation's objectives are to enhance the profile of the onshore industry, promote better and more open dialogue with key stakeholders, deliver industry wide initiatives and programmes and to ensure standards in safety, the environment and operations are maintained to the highest possible level.

I am pleased with the progress that the industry has made during 2016 with a number of operators in addition to IGas being granted planning permission to further shale appraisal. It shows positive momentum towards finding out what natural gas resources we have beneath our feet that can be developed for the good of the whole of Britain.

In May 2016, Third Energy was granted permission for flow tests at its existing KM8 well in Ryedale, Yorkshire. The decision was challenged in court later in the year but successfully upheld. I look forward to Third Energy being able to conduct a test to see how much gas is under this area of North Yorkshire.

In October 2016, the long awaited decision by the Secretary of State for Communities and Local Government was made in favour of Cuadrilla's Preston New Road site. Initial work has now started at the site and we look forward to seeing the results later this year. INEOS have also announced the first of several screening applications which will provide further forward momentum. I am also pleased with the progress the industry has made with non-shale applications and we should see significant activity across a number of regions this year.

Shortly after becoming Prime Minister Theresa May made an extremely important announcement about local people sharing in the benefits of onshore oil and gas production, something I fully support. Support for shale has been reiterated by a number of the new ministers which is also pleasing to see.

**Ken Cronin**  
CEO, UKOOG

Read more information at  
[www.ukoog.org.uk](http://www.ukoog.org.uk)

# CHIEF EXECUTIVE'S STATEMENT CONTINUED

Results from these wells will improve our understanding of the shale gas potential in North Nottinghamshire and the wider Gainsborough Trough. Following the final 3D seismic interpretation and assessment in the North West, which confirms, alongside previous wells, the shale potential within the survey area, the data is being utilised to identify drilling locations and will allow us to firm up a development programme.

D&M also produced a separate independent evaluation of risked prospective shale gas resources in the IGas East Midlands and North West licence areas.

D&M has estimated an IGas gross mean gas initially in place ("GIIP") of 221 Tcf. D&M reports an IGas gross GIIP best estimate of 106 Tcf using PRMS guidelines.

After application of adjustments for productive areas and recovery factors based on D&M's worldwide experience with analogous shale gas basins, D&M has estimated unrisked IGas net shale gas prospective resources of 11 Tcf.

D&M has estimated that IGas has 2.5 Tcf (c.440 mmbbl) of net risked shale gas resources after taking into account an estimated geological chance of success. Our new Round 14 blocks were included in this estimate.

In July 2016, IGas was formally awarded 17 blocks, across 9 PFDLs, in the UK's 14<sup>th</sup> Onshore Oil and Gas Licensing Round. The blocks, across three key basins, represent a total gross area of c.257,000 acres; IGas' net interest is c.115,000 acres.

## Health, safety and the environment

The welfare of our employees, contractors, partners and communities neighbouring our operations is at the very top of our agenda and we constantly strive to improve this critical area of our business.

Lost Time Injuries ("LTIs") represent a direct measure of our safety procedures and the quality of training and have the potential to impact our reputation and ability to operate effectively. During the year we had zero LTIs.

Our endeavours were recognised this year through the President's Award from RoSPA. This special honour is presented to those organisations which have achieved more than ten consecutive Gold Awards and I would like to thank the HSE team and the wider operation teams for their continuous demonstrable commitment to ensuring that health and safety is at the top of the agenda.

Everywhere we operate we are committed to safe and environmentally responsible activity. Throughout our operations robust measures are put in place and regulated to protect the environment.

## IGas in the community

The IGas Community Fund is now in its eighth year and has awarded more than £850,000 to deserving community projects close to our operations. We support projects that make a difference to life in the mainly rural communities where we operate. You can read about some of the projects the fund has awarded grants to on page 37.

We are committed to having an open dialogue with the public. It is vital for the industry to understand specific communities' needs and to help people to understand the process and what it means for them.

As part of our commitment to open and transparent communications IGas undertakes extensive community engagement alongside our planning applications. This engagement consists of a number of different elements from community meetings and exhibitions to site visits, project websites, newsletters and social media campaigns.

## Political and regulatory update

Following the vote in June 2016 to leave the EU, a new Government was formed in July 2016 under the leadership of a new Prime Minister, Theresa May. In her opening speech, the Prime Minister said that she wants an energy policy that emphasises the reliability of supply and lower costs for users. Since her appointment, the Prime Minister has created a new Department of Business, Energy and Industrial Strategy headed by Greg Clark, formerly Secretary of State for Communities and Local Government.

In July 2016, the Committee on Climate Change published a report which stated that "shale gas could make a useful contribution to UK energy supplies, including providing some energy security benefits." The report also confirmed that widespread shale gas production is compatible with the carbon budgets provided three tests are met. These tests are already met by existing UK regulations and policy.

On 8 August 2016, the Government launched a Shale Wealth Fund consultation to seek views on the delivery method and priorities of the fund, including direct payments to communities. The consultation closed at the end of October 2016 and we await its recommendations.

In November 2016, UKOOG agreed a partnership with Community, the steel, iron and manufacturing industries trade union, to promote the importance of home-grown oil and gas and to protect British jobs.

This builds further links with key industry trade unions following the UKOOG and GMB joint charter on shale gas, focusing on safety, skills and supply chain development. A copy of the charter can be found at: [http://www.ukoog.org.uk/images/ukoog/pdfs/UKOOG-GMB\\_Charter\\_-\\_8\\_June\\_2015.pdf](http://www.ukoog.org.uk/images/ukoog/pdfs/UKOOG-GMB_Charter_-_8_June_2015.pdf)

## Role of oil and gas

Gas provides 84% of our homes with heat, 61% with the means to cook, up to 50% of our electricity and the employment of over half a million people in industries that turn natural gas into everyday products such as computers, mobile phones, cosmetics, medicines, fertilisers for our farmers and even solar panels.

The 2015 Paris Agreement re-emphasises the obligation on us to focus on minimising environmental impact. Governments agreed to reduce emissions and developing renewable sources of energy is vital to reducing greenhouse gas emissions. However, renewables cannot entirely satisfy demand themselves right now, and natural gas is needed to help clean energy sources grow.

Gas supports renewables in a number of ways. Gas provides back-up power for days when the wind does not blow and you can track this using Gridwatch: <http://www.gridwatchtemplar.co.uk/> which gives live information on how we are generating our electricity. Gas and renewable energy sources also play different but complementary roles in the energy mix. Currently renewables generally provide electricity but today, eight out of ten homes in the UK are heated using gas and as we continue to decarbonise our electricity, it will be gas that will keep us warm. Finally, gas is used as a raw material to help build renewable energy hardware. Solar panels are a good example. Materials made from gas (and oil) protect and bind together the solar cells using items such as silicon rubber, plastic and polyesters.

### People

As we move our business forwards it is important to review its effectiveness and efficiency and we have been carefully monitoring and reviewing the current organisational structure in light of the anticipated increase in our shale operational activity in 2017. We have streamlined ourselves not only to meet current challenges but to deliver effectively against our future corporate targets.

Looking back at the year it has certainly been a challenging one for us all but everyone has risen to the task in hand. When I go out into the business I am struck by the commitment, enthusiasm and dedication of our people. I want to pay particular tribute to all of our employees and thank them for their efforts during 2016, and look forward to working with them in the next phase of our development.

### Outlook

Following the completion of our restructuring, we now have a strong balance sheet which will enable us to focus on delivering the significant potential of our production and development assets and provide a solid foundation for the long term future of the Company.

We are forecasting net production for 2017 to be c.2,500 boepd with capital expenditure of c.£4 million in the year. We are focused on cash generation in our production business and anticipate operating costs of \$25/boe for 2017, which at these current oil price levels and our anticipated general and admin and financing costs means we will be cash generative.

We have now received two planning permissions in the East Midlands and we anticipate spudding these wells in the second half of the year to improve our understanding of the Gainsborough Trough. These wells are carried by our partners under our \$230 million carried work programme. In the North West, having interpreted the 3D data we are moving forward with site selection and pre-application preparations.

Our strategy remains clear and focused, as we look to maximise the potential of our existing assets and develop our shale gas business from appraisal to future production.

We look forward to the future with renewed confidence following the refinancing and are excited by the opportunities that increased momentum across the UK shale industry, including further well data, will present during 2017.

### Stephen Bowler

Chief Executive Officer

# OPERATIONAL REVIEW

## CONTINUING OUR PACE

The adoption of cost effective technology to unlock value in our assets remains a key part of our overall strategy.

### NET RESERVES AND RESOURCES (MMBOE)

	1P	2P	2C
As at 31 Dec 2015 <sup>1</sup>	8.31	13.33	12.67
As at 31 Dec 2016 <sup>2,3</sup>	9.02	13.37	21.83

#### Scotland (mmboe)

Conventional Contingent Resources

#### East Midlands (mmboe)

Conventional Reserves

Conventional Contingent Resources

Shale Prospective Resources

#### North West (mmboe)

Shale Prospective Resources

#### The Weald (mmboe)

Conventional Reserves

Conventional Contingent Resources

<sup>1</sup> Basic estimates.

<sup>2</sup> IGA's estimates based on OSM as at 30 June 2016 adjusted for actual production July-Dec 2016.

<sup>3</sup> 20.0m per field (7.5m by 2016).

## Production

2016 was a challenging year for the industry with low oil prices driving cost efficiencies across the sector to ensure competitiveness was maintained. The impact on IGas' production business was no different and various actions were taken to ensure that the business remained sustainable in the prevailing circumstances. The main actions implemented entailed a thorough and comprehensive review of the Production business with the aim of reducing opex by some 15% and revisiting the proposed budgeted capital expenditure to preserve cash.

This review, which was part of the broader corporate cost reduction initiative, entailed a comprehensive assessment of existing processes, practice and costs and encouraged paradigm shifts in approach to achieve the target savings. Some of the key outputs from this exercise included changes in working and shift patterns to better utilise key skills and expertise; emphasis on integration and harmonisation of operations in the East Midlands and the Weald area, for example in maintenance, well services and outsourcing non-core services such as transportation. Unlike the North Sea, the opportunity to materially derive savings through the supply chain were not as tangible, owing to the fact that the low levels of onshore related activity mean the supply chain is historically already very cost conscious. Nevertheless, some more modest savings were achieved through this avenue.

In 2016, the overall operational expenditure was reduced by some c. 15% in sterling terms. This is a significant reduction in unit costs which has been achieved without impacting safety and is testimony to the hard work and commitment of our staff.

As part of the cost reduction exercise a thorough review of capital expenditure was also undertaken and as a consequence a number of projects were deferred to reduce capex and optimise value to the business. These projects offer economic solutions but were recognised as being discretionary and that they would be more attractive in a higher oil price scenario.

Production for the year averaged c. 2,355 boepd against guidance of c. 2,400-2,600 boepd. Production during the year was impacted by two key items, firstly the reduced capital expenditure had an effect and secondly, a number of wells were worked over during the summer.

Despite the backdrop of low oil prices, we were able to continue to advance the initiatives to sustain production and boost recovery through our technical work programmes and application of technology. Key successes included increased well performance through detailed modelling of lift performance and subsequent changes to well completions. The application of downhole gauges and Rod Pump Off Controllers ("RPOCs") has provided the Engineering teams with live data against which they are able to evaluate and recommend beneficial changes to the well configurations. This has been a key contributor to lowering costs whilst maintaining production efficiency.

What has been very pleasing is that we have 'instrumented' our fields, providing real time data largely through the efforts of our 'in house' team at a fraction of the cost that a similar exercise would have incurred from an industry recognised supplier. In effect we have built our own 'digital oilfield' capability and continue to expand this concept with positive cost effective results.

Another key area we have continued to make good progress on is our water injection initiative. Building on the successful pilot conducted at Welton we are pursuing opportunities to expand this initiative both at Welton and in other fields. In parallel we have been trialling technology that can 'clean up' produced water to drinking water standards. These trials have proven very successful and offer the opportunity to treat our produced water, removing solids and salts before it is re-injected back into the reservoir. This helps the injection efficiency and keeps costs down. This technology will also be invaluable in terms of re-circulating water used in the shale arena and in doing so help to reduce the overall consumption as well as reducing the number of truck movements required to transport the water.

Water injection has several advantages: it can increase production, extend field life and importantly boost recovery. Some of the incremental reserves referred to below are as a result of the commitment to expanding the water injection project.

Our producing assets portfolio consists largely of mature fields which have historically suffered from relatively high operating costs and low levels of production efficiency. Over the last two years we have embarked upon a number of measures to lower costs and improve production efficiency. We are now seeing these initiatives come to fruition in terms of reduced opex, sustained production levels, even in a reduced capex environment and year on year increases in booked reserves.

## Reserves and resources Independent reserves and resources evaluations

On 17 October 2016, IGas announced the publication of the full and final results of the Competent Persons Report ("CPR") by DeGolyer & MacNaughton ("D&M"), a leading international reserves and resources auditor.

The reports comprised an independent evaluation of IGas conventional oil and gas interests as of 31 July 2016, a report as of 31 July 2016 on the unconventional prospective resources and a report as of 30 June 2016 on reserves and revenue and contingent resources. The full reports can be found on the IGas website.

The D&M independent evaluation also included an estimate of 2C net contingent conventional resources of 21.8 mmboe for IGas properties based on 5.8 Mcf/boe. These resources include oil and gas resources within producing and undeveloped fields that can be readily developed with infill drilling and gas monetisation projects. Three gas monetisation projects now require only sales agreements and final investment decisions ("FID") to be able to proceed, which will lead to future reserves additions and incremental production.



# OPERATIONAL REVIEW CONTINUED

## Prospective shale gas resources

D&M also produced a separate independent evaluation of risked prospective shale gas resources in the IGas East Midlands and North West licence areas.

Using a deterministic method adopted by the British Geological Survey and including 14<sup>th</sup> Round licences awarded in 2016, D&M estimated an IGas GIIP of 221 trillion cubic feet. D&M reported an IGas gross GIIP best estimate of 106 Tcf using PRMS guidelines. These estimates included uncertainty in the productive area.

After application of adjustments for productive areas and recovery factors based on D&M's worldwide experience with analogous shale gas basins, D&M estimated unrisked IGas net shale gas prospective resources of 11 Tcf.

Finally, D&M estimated that IGas has 2.5 Tcf (c. 440 mmmboe) of net risked shale gas resources after taking into account an estimated geological chance of success.

## Assets

In addition to the 24 onshore fields IGas operates in the UK, predominantly centred in the East Midlands and the Weald Basin, we operate one of the largest net acreage positions in the UK, with a total gross carried shale work programme of up to \$230 million as at 31 December 2016.

We continually monitor and manage our portfolio with a view to optimising the economic recovery of oil and gas. During 2016 there were some significant changes to the portfolio involving the relinquishment of acreage no longer deemed core to the business, reduction in equity in PEDLs 293 and 295 as a result of INEOS Upstream Limited ("INEOS") exercising an option to increase their holding, a farm-in into PEDL 278 and a successful outcome from the 14<sup>th</sup> Round Licensing awards.

## Net IGas shale gas estimates

### Gas in place

### Unrisked prospective resource

### Risked mean prospective resource

Units  
(Tcf)

102

11

2.5

## Comments

Using BGS deterministic method

Adjusted for productive area and recovery factor

Adjusted for geological chance of success

As part of our 14<sup>th</sup> Round awards, in the East Midlands and Yorkshire, blocks SE31c/SE41e, SK59b/SK49, and SK89e/SK88b/SK87c were awarded to a joint venture comprising IGas, Total E&P UK Limited ("Total") and Egdon Resources plc ("Egdon"). IGas will be operator of the licences with a 35% interest, Total will have a 50% interest and Egdon a 15% interest. These licences are located in the Gainsborough Trough close to where the Company currently operates 80 sites, the majority of which have been in production for many years. IGas will conduct a shale work programme including 3D seismic surveys and three firm wells. Two further 100% blocks, TF18b and SK99a, were awarded to IGas in the East Midlands with a work programme consisting of two drill or drop wells targeting conventional prospects and 12km of 2D seismic.

In the North West, blocks SJ64/SJ65 and SJ75/SJ76 were awarded to a joint venture comprising IGas and ENGIE E&P UK Limited ("ENGIE"). In March 2017, INEOS completed its acquisition of ENGIE's interests in certain UK onshore licences held jointly with IGas which included these blocks. IGas will be operator of the licences with a 65% interest and INEOS will have a 35% interest. A work programme consisting of 2D seismic and two drill or drop wells will help to establish the hydrocarbon potential of the shale in this area.

In the South East, IGas has been awarded blocks SU81c, SU81d, SU90a and TQ34d and will be the operator with a 100% interest. These blocks have conventional oil and gas potential and are located adjacent to the IGas Singleton and Bletchingley fields in the Weald Basin. A work programme consisting of 2D seismic acquisition will drive the decision on the two drill or drop wells.

The net impact of these various changes to the portfolio is summarised below.

	Gross ('000 acres)	Net ('000 acres)
31 Dec 2015	1,052	769
31 Dec 2016	1,037	632

A full list of all our licence interests can be found on pages 118 to 119.

## Development

### Gas monetisation

The planning application at Bletchingley for gas production and the application for compressed natural gas ("CNG") at Albury have both now been approved. We continue to seek further cost savings in these projects where possible. Commercial discussions are underway and a formal FID will follow upon their conclusions.

At Lybster, in Scotland, we have been granted planning permission for the facilities upgrade and oil/gas and CNG production streams and discussions are ongoing in respect of the relevant off-take options.

In addition, an application for the installation of a CNG facility at the Singleton field in the Weald has been approved and options on commercial arrangements are being investigated.

### Weald Basin

In addition to the planning consent for the CNG plant at Singleton, we also obtained planning consent for two further production wells at Singleton and extended the life of our site at Stockbridge.

### East Midlands and Yorkshire

In November 2016, we received planning permission to drill two exploratory wells at a site at Springs Road in the parish of Misson, North Nottinghamshire. The planning application had been submitted in October 2015 and several rounds of information gathering and public consultation were undertaken before a decision was taken by Nottinghamshire County Council Panners.

As part of the planning obligations IGas agreed to sign a S106 legal agreement which covers issues including where HGV's will be routed, the continuation of a community liaison group and the creation of a bond for site restoration. Once these and the other conditions which were imposed have been agreed work can commence on the site. Meanwhile, our Ground Water Monitoring Boreholes are now operational and data is being collected and sent to the Environment Agency.

At our Tinker Lane site, which is also situated in North Nottinghamshire near Blyth, a planning application to drill a single well along with accompanying ground water monitoring boreholes was submitted in May 2016. In March 2017, following a recommendation by Planning Officers to grant consent, planning permission was granted also subject to the completion of a S106 legal agreement.

Both of these developments will help us to understand the shale gas potential in the region and more widely. There is a pressing need to deliver lower carbon energy that is home grown, provides important energy security for the future alongside economic benefits to the local communities as well as the country as a whole. Depending on the results of these wells we may submit planning applications to carry out hydraulic fracturing in the future.

During the course of 2016 we have continued with an extensive community engagement programme in the area, with a dedicated Community Liaison representative living within the community and holding regular community liaison group meetings and public events. We distributed two newsletters to over 5,000 people in the area and continue to engage with the community, businesses and other stakeholders who have an interest in these developments.

#### North West

Following the successful 3D North Dee seismic acquisition campaign in the fourth quarter of 2015 the IGas and Joint Venture partnership geoscience teams have been evaluating the comprehensive data set to refine an initial subsurface target area for exploration and appraisal in the area. On the back of the geological work the IGas Lands & Planning team are in the process of securing surface location options to enable initial exploration and appraisal well applications to move forward.

#### International assets

Further progress on divestment of international assets has been made during 2016. All Indonesian operations have been divested. Licences previously held in Germany and Australia have been relinquished or divested. The office in Brisbane has been closed and the lease has not been renewed. Operations in India have been completed and application made to relinquish the last remaining licence has been submitted. The deregistrations of the companies in China and Vietnam have progressed and are expected to be finalised in December 2017.

#### John Blaymires

Chief Operating Officer

## OPERATIONAL REVIEW CONTINUED

# Moving in the right direction

A Q&A with our Production Director, Chris Beard on our successful year in advancing our operations.

**Q How have you been managing costs effectively in this oil price environment?**

**A** *Effective cost management is about attitude and behaviour as much as it is about controlling your costs. It is important to recognise that it is not purely about cutting costs but also about maximising the value for money that is achieved. Achieving control of our costs starts with ensuring that all the teams know and understand how and why we are spending our money, so we try to engage and inform, let everyone know that they can make a difference. We build the budgets from the ground up, challenging and justifying everything until we reach the right number, one that everyone has confidence in. It doesn't stop there, as once you have your budgets you then have to constantly be managing them, we hold regular "surgeries" where we analyse commitments, seek out savings and opportunities, always looking to reduce costs or add value. This is a continuous process right throughout the year. Additionally we have worked very closely with our supply chain and as a result of our strong well established relationships we have been able to secure savings, often working together to find innovative solutions and drive down costs. Production optimisation has also been key and through data analysis, the application of technology and collaboration between the teams across the business we have been able to deliver some significant improvements*

**Q How do you see production performance over the coming year?**

**A** *Every year this business throws challenges at you and I am sure that this year will be no different, however, I feel that we are better placed now than in any time in the recent past. We have invested in our people, the technology that we utilise and continue to review and question our approach to everyday operations. We have reorganised and streamlined the business in order to provide clear focus and accountability for production delivery. Our technical teams continue to find opportunities, an example being our water injection trials which have proved to be very successful, or the pump deepening programme all of which have highlighted the prospect to add reserves*

*and increase our day to day production. Our Digital Oilfield roll out continues, providing more value each day, helping us to identify production opportunities, solve problems and drive efficiencies. Alongside this we are now also able to clearly demonstrate compliance to our regulators with live data and information being available at the click of a button. In addition, we have invested in our well service capability and are delivering significant improvements in rig utilisation, which together with our production enhancement drive will create capacity to place a clear emphasis on well optimisation. All of these initiatives are helping us to push our production efficiency, reduce our costs and have confidence in our ability to deliver going forward.*

**Q What are the key projects over the next few years?**

**A** *As a business we have several gas projects that will be a clear focus for us over the coming years. We are looking to prove up the compressed natural gas ("CNG") concept as well as connecting into local gas networks. We see significant value add in CNG as a vehicle fuel as it offers a 40% saving in the cost of fuel per mile, 80% greenhouse gas reduction, near zero NOX and is low noise. Several truck fleets are starting to make the shift from diesel to CNG especially as CNG becomes more accessible. CNG potentially also provides a mechanism to reduce the environmental impact alongside monetising the gas during shale development. In addition, network entry is also opening up as since 2010 the gas transmission business has been increasingly deregulated so as to enable the injection of small quantities of Bio-methane into the network in the form of CNG or low pressure gas. This has resulted in the development of small scale gas processing & conditioning equipment to the level that compliant systems are both reliable and economical to operate. We also continue to trial new and innovative technologies and have recently completed a trial where we were able to successfully clean up produced water to drinking water quality standards, again this technology has multiple applications in both the traditional operating environment and in shale development.*

Our Digital Oilfield roll out continues, providing more value each day, helping us to identify production opportunities, solve problems and drive efficiencies.

**Q As a responsible operator how does IGas ensure that it protects the environment?**

**A** The UK onshore oil and gas industry is committed to working with regulators and within local areas to ensure that any activity is done safely and with as little impact to the environment as possible

Throughout our operations and the lifecycle of our wells robust safety measures are in place to protect the environment.

Protection of aquifers and ground water is essential IGas wells are all designed with the minimum of three layers of steel casing – the surface casing, the intermediate casing and the production casing. The intermediate casing ensures that there can be no leakage path from the oil/gas producing layer up to the aquifer.

During site construction, a thick impermeable membrane is placed across the entire site which prevents any potential spills leaking into the groundwater. The membrane holds all site surface water which is also tested prior to disposal.

In the UK, we have an exemplary regulatory regime – we're regulated by the Health and Safety Executive, BEIS/OGA and the Environment Agency as well as the local Council, the Mineral Planning Authority and ultimately we are held to account by the local community.

## KEY PERFORMANCE INDICATORS MEASURING OUR PERFORMANCE

IGas tracks both financial and non-financial metrics to help the Group manage its long term performance and measure progress against its strategy.

### FINANCIAL

Production (boe/d)

**2,355 boe/d**

Operating costs (\$/boe)

**28.8 \$/boe**

Operating cash flow (£m)

**£12.4m**

#### Reason for choice

The Group aims to maintain production levels of c 2,500 boe/d to provide operating cashflow for funding of the Group. To ensure this target is met an appropriate level of capital investment is planned to mitigate against the underlying decline in our mature fields.

Operating costs per boe is a key focus for the Group, particularly in the current low oil price environment.

Operating cash flow is key to providing funding for investing in the business as we pursue our growth strategy.

#### Target and results for 2016

Production for 2016 was 2,355 boe/d which did not meet the target of 2,500 boe/d. The principal reasons for the shortfall were a number of material wells requiring workovers during the summer and the decision to defer discretionary capital expenditure as these projects would be more attractive in a higher oil price scenario.

Operating costs for 2016 were \$28.8/boe against a target of \$30 Q/boe. The target was achieved due to a continuing strong focus on costs and was helped by the weakening of sterling against the US dollar following the referendum vote to leave the EU, although this was largely offset by the reduction in production for the year. We will continue to review operating costs on an ongoing basis and further savings are expected to be achieved in 2017.

The Group generated operating cash flow of £12.4 million during the year. Whilst the oil price reached a low of \$27/bbl in January 2016, the Group was still able to generate a positive operating cash flow. The result for the year was positively impacted by cash inflows from realised hedges of £8.5 million and a net decrease in trade receivables of £3.4 million principally due to our JV partners settling amounts due at the end of 2015 in the first quarter of 2016, and the purchase of hedges during the year.

#### Link to strategy

Year ended 31 December 2016

Year ended 31 December 2015

Year ended 31 March

2015 operating costs included a one-off rates related equivalent to \$5.5/boe, so underlying operating cost for 2015 were \$30.3/boe

## A reminder of our strategy

Developing shale portfolio

Reserves and production growth

Local and national engagement

## NON-FINANCIAL

Lost Time Injuries (number)

Nil

Progress on Five Year Shale Development plan

Granted planning consent for two wells (horizontal and vertical) in PEDL 139/140 (Springs Road); submitted planning permission for drilling in PEDL 200 (Tinker Lane); received five new shale licences in the 14<sup>th</sup> Round; and completed interpretation of 3D seismic in the NW

Acquired 3D seismic in the NW; submitted planning application for drilling in PEDL 139/140 (Springs Road); 14<sup>th</sup> Round licence applications; and secured INEOS farm-in

Drilled Ellesmere Port-1; and issued five year shale development plan

Drilled Irlam-1, and secured Total farm-in

Site prep & conductor installation Irlam; evaluated Ince; and prepared Irlam

Health and safety is of paramount importance to us in providing the highest level of protection to all our stakeholders.

The Five Year Shale Development plan is key to delivering shareholder value and delivering against our strategy.

The target was to have zero LTIs and this was achieved in the year. We have again maintained our ISO 9001 and 14001 accreditation with no major non-conformances identified. We received RoSPA's President's Award in the year, which is awarded for ten consecutive years of Gold Awards for our health and safety performance.

The target for the year was to continue to make progress against the plan and whilst no shale wells were drilled in the year, we are now well set to make significant progress in 2017. During the year we obtained planning consent for drilling two wells in the East Midlands and submitted a planning application for a further well. We fully evaluated the results of the 3D seismic data we obtained in the North West in 2015, and following the confirmation of the shale potential in the region, will now look to identify suitable sites and submit applications for drilling in the North West in 2017.

Year ended 31 December 2016

Nine months ended 31 December 2015 2016 operating costs included a one-off rates rebate equivalent to \$0.25/bbl so unitary costs, operating costs for 2015 were £20.1/bbl.

Year ended 31 March

## FINANCIAL REVIEW

### MAKING SOUND FINANCIAL DECISIONS

Oil price volatility and the fall in the value of sterling against the US dollar both had a significant impact on the results of the Group for the year.

The Company believes that the new capital structure will be sustainable in the current oil price environment and, together with the up to \$230 million carried work programme, means that the Company is well positioned to pursue its strategy.

A key objective for the Group for the year ended 31 December 2016 was to reach a consensual solution with its bondholders in relation to its forecast non-compliance with certain of its covenants during the year. After many months of discussions, agreement was ultimately reached with bondholders on a restructuring proposal which was formally approved by all stakeholders in April 2017. The restructure involved new equity of \$55 million being raised, \$40 million of secured bonds being exchanged for equity at par, \$49.2 million of secured bonds being bought by the Company at par, \$27.4 million unsecured bonds being exchanged for equity at 62.5 cents and the remaining \$30 million of secured bonds having their terms amended. This resulted in net debt being reduced from c \$122 million to under \$10 million post completion of the transaction.

#### Results for the year

Oil price volatility and the fall in the value of sterling against the US dollar both had a significant impact on the results of the Group during the year. The price of Brent crude reached a low of \$27/bbl in January 2016 and a high of \$55/bbl in December 2016, with an average price of \$44/bbl during the year. Sterling weakened against the US dollar following the result of the EU referendum and the exchange rate declined from £1:\$1.50 at the beginning of the year to £1:\$1.23 in December 2016, having a negative impact on our US dollar denominated debt.

## REALISED PRICE PER BARREL

**\$58.1**

Realised price  
per barrel

\$9.8 Net back<sup>3</sup> to IGas per BOE

\$19.4 G&A per BOE

\$20.4 Other operating cost

\$3.7 Well services

\$4.8 Transportation & storage

**\$0**

**Year ended  
31 December 2016**

**Nine months to  
31 December 2015**

Revenues	£30.5m	£25.1m
Adjusted EBITDA	£10.2m	£18.3m
Underlying operating profit <sup>1</sup>	£3.7m	£11.1m
Loss after tax	£(32.9m)	£(44.8m)
Net cash from operating activities	£12.4m	£1.0m
Net debt <sup>2</sup>	£99.7m	£73.3m
Cash and cash equivalents	£24.9m	£28.6m
Net assets	£70.5m	£98.8m

### Notes

<sup>1</sup> Adjusted EBITDA and underlying operating profit are considered by the Company to be a useful additional measure to help understand underlying performance. A reconciliation to loss before tax and operating loss is included in the financial review.

<sup>2</sup> Net debt reduced to £57m post refinancing in April 2017.

<sup>3</sup> Net back per boe on an Income Statement basis is realised oil price, less operating costs and G&A.

In the year ended 31 December 2016 adjusted EBITDA<sup>1</sup> was £10.2 million (Nine months ended 31 December 2015: £18.3 million) whilst a loss was recognised from continuing activities after tax of £31.8 million (Nine months ended 31 December 2015: loss £47.2 million). The main factors driving the movements between the year ended 31 December 2016 and the nine months ended 31 December 2015 were as follows:

- Revenues increased to £30.5 million (Nine months ended 31 December 2015: £25.1 million) principally due to higher sales volumes in the longer accounting period. Lower average daily production and a lower US dollar price per barrel were partially offset by a strengthening US dollar;
- Other costs of sales increased to £20.9 million (Nine months ended 31 December 2015: £14.4 million) mainly due to higher sales volumes over the full year;
- Administrative expenses increased to £11.4 million (Nine months ended 31 December 2015: £6.0 million) due to the inclusion of £3.0 million (Nine months ended 31 December 2015: £nil) of legal and professional costs relating to refinancing, higher non-cash share based payment charges of £2.6 million (Nine months ended 31 December 2015: £0.5 million) and lower capitalisation of costs due to lower capital activity in the year. Restructuring costs were £0.6 million (Nine months ended 31 December 2015: £2.1 million) as the cost reduction programme was completed primarily in 2015;

- Impairment charges of £nil on property, plant and equipment (Nine months ended 31 December 2015: £8.9 million net of tax) and impairment charges of £nil on goodwill (Nine months ended 31 December 2015: £39.2 million) due to higher reserves, higher estimated future oil prices and a favourable USD/GBP exchange rate;
- An exploration write-off of £4.5 million (Nine months ended 31 December 2015: £12.9 million);
- A profit on disposal of oil and gas assets of £nil (Nine months ended 31 December 2015: £4.0 million on the INEOS farm-out);
- Other income decreased to £0.7 million (Nine months ended 31 December 2015: £5.1 million); and
- A tax credit of £13.0 million mainly due to the reversal of temporary timing differences and a reduction in the supplementary corporation tax rate from 20% to 10% from 1 January 2016 (Nine months ended 31 December 2015: £17.3 million credit due to timing difference reversals caused by the impairment of assets).

### Income statement

The Group recognised revenues of £30.5 million in the year (Nine months ended 31 December 2015: £25.1 million). Group production in the year was an average of 2,355 boepd (Nine months ended 31 December 2015: 2,570 boepd). Revenues for the year included £3.3 million (Nine months ended 31 December 2015: £2.4 million) relating to the sale of third party oil, the bulk of which is processed through our gathering centre at Holybourne in the Weald Basin.

The average pre hedge realised price for the year was \$44.1/bbl (Nine months ended 31 December 2015: \$51.3/bbl) and post hedge \$58.1/bbl (Nine months ended 31 December 2015: \$58.9/bbl). The realised gain on hedges was £8.5 million (Nine months ended 31 December 2015: £3.3 million) reflecting the movement in oil prices. The average GBP/USD exchange rate for the year was £1: \$1.37 (Nine months ended 31 December 2015: £1: \$1.53) which positively impacted revenues.

Cost of sales for the year were £27.2 million (Nine months ended 31 December 2015: £21.5 million) including depreciation, depletion and amortisation ("DD&A") of £6.3 million (Nine months ended 31 December 2015: £7.1 million), and operating costs of £20.9 million (Nine months ended 31 December 2015: £14.4 million). Operating costs include a cost of £2.7 million (Nine months ended 31 December 2015: £2.2 million) in relation to third party oil. The contribution received from processing this third party oil was £0.6 million (Nine months ended 31 December 2015: £0.2 million).

Operating costs per barrel of oil equivalent (boe) were £21.1 (\$28.8), excluding third party costs (Nine months ended 31 December 2015: £16.1 (\$24.6) per boe). Operating costs per boe were higher in 2016 due to the impact of lower volumes on fixed costs, higher transportation costs and a credit in 2015 of £3.6/boe (\$5.5/boe) related to a refund for land rates.



## FINANCIAL REVIEW CONTINUED

Adjusted EBITDA<sup>1</sup> in the year was £10.2 million (Nine months ended 31 December 2015: £18.3 million). Gross profit for the year was £3.3 million (Nine months ended 31 December 2015: £3.6 million). Administrative costs increased by £5.4 million to £11.4 million (Nine months ended 31 December 2015: £6.0 million) principally due to the longer accounting period, additional legal and professional costs relating to refinancing of £3.0 million (Nine months ended 31 December 2015: £nil), increase in non-cash share based payment charges to £2.6 million (Nine months ended 31 December 2015: £0.5 million) and lower capitalisation of costs due to lower capital activity in the year, partially offset by higher restructuring costs in 2015.

No impairment charge was recognised in the year principally as a result of higher reserves, higher estimated future oil prices and a favourable USD/GBP exchange rate (Nine months ended 31 December 2015: £48.1 million net of tax - £8.9 million relating to producing assets and £39.2 million relating to goodwill).

Exploration costs written off were £4.5 million (Nine months ended 31 December 2015: £12.9 million) relating to relinquishment of licences during the year.

Other income of £0.7 million included £0.4 million (Nine months ended 31 December 2015: £4.9 million) relating to a fair value adjustment on the contingent deferred consideration in relation to an amount payable to a joint venture partner.

Net finance costs were £28.8 million for the year (Nine months ended 31 December 2015: £7.8 million), which primarily related to interest on borrowings of £11.9 million (Nine months ended 31 December 2015: £8.7 million), a net foreign exchange loss of £14.8 million principally on the US\$ denominated debt (Nine months ended 31 December 2015: gain £0.1 million) and a realised loss on the sale of bonds of £1.5 million (Nine months ended 31 December 2015: £0.9 million gain on bonds repurchased).

The Group made a loss on oil price derivatives of £3.5 million for the year (Nine months ended 31 December 2015: gain £8.6 million).

The Company believes that the new structure will be sustainable in the current oil price environment and, together with the \$230 million carried work programme, means that the Company is well positioned to pursue its strategy for the future.

➤ **Read more on how we use integrated management tools and financial management on pg 13**

<sup>1</sup> Adjusted EBITDA relates to earnings before gains/(losses) on oil price derivatives, net finance costs, tax, depletion, depreciation and amortisation, impairments, acquisition costs, restructuring costs and IFRS 2 charges.

**Cash flow**

Net cash generated from operating activities for the year was £12.4 million (Nine months ended 31 December 2015: cash used £1.0 million). The Group invested £8.8 million across its asset base during the year (Nine months ended 31 December 2015: £9.4 million), of which £6.5 million was invested in the conventional assets in order to maintain current levels of production and £2.3 million in unconventional assets in furtherance of our shale exploration programme.

The Company repaid £4.9 million (\$7.1 million) of principal on borrowings to bondholders in the period in accordance with the terms of the bonds (Nine months ended 31 December 2015: £6.1 million (\$8.2 million)), which represents a repayment of 5% of the original principal amount of the secured bonds. The Company also resold bonds with a face value of \$8.0 million for \$6.0 million in November 2016 (Nine months ended 31 December 2015: repurchased bonds with a face value of \$7.0 million for \$5.3 million).

The Company paid £11.6 million (\$15.5 million) in interest (Nine months ended 31 December 2015: £5.9 million (\$9.0 million)). Cash and cash equivalents were £24.9 million at the end of the year (31 December 2015: £28.6 million).

**Balance sheet**

Net assets were £70.5 million at 31 December 2016 (31 December 2015: £98.8 million) with the decrease in net assets principally resulting from the loss arising during the year.

Trade and other receivables decreased by £8.0 million mainly due to a reduction in receivables from JV partners following lower activity and a receivable in respect of a rates refund included in 2015.

Borrowings increased from £102.9 million to £124.6 million mainly as a result of the negative impact of the strengthening of the US dollar on US dollar denominated debt and the sale of \$8.0 million secured bonds during the year.

At 31 December 2016, the Group's derivative instruments had a net negative fair value of £0.9 million (31 December 2015: net positive fair value of £6.6 million).

Net debt, being borrowings less cash, at the period end amounted to £99.7 million (31 December 2015: £73.3 million).

At the Annual General Meeting of the Company held on 25 May 2016, a special resolution was passed approving a reduction of the Company's capital by way of the cancellation of the whole of the amount standing to the credit of the Company's share premium account and the capital redemption reserve thus eliminating the current deficit position and creating distributable reserves. Following the approval of the High Court and the subsequent registration of the Court order with the Registrar of Companies the Capital Reduction has now become effective.

The Company issued 3,996,914 ordinary shares at a nominal value of 10p each. 1,767,220 shares were issued in connection with the disposal of the Company's interest in Sangatta West CBM Inc under a Share Transfer Agreement with Ephindo International CBM Holding Inc, thereby disposing of the Group's remaining interest in Indonesia. The balance of shares were issued in connection with the IGas Energy Share Incentive Plan (Nine months ended 31 December 2015: 1,899,102 shares issued).

Adjusted EBITDA and underlying Operating Profit are considered by the Company to be useful additional measures to help understand underlying performance.

**Going concern**

The strength of the Group's balance sheet has been improved significantly by the capital restructuring completed in April 2017. Based on the Group's strategic plans and working capital forecasts, the Directors have a reasonable expectation that the Group has adequate resources to continue in existence for the foreseeable future. Thus the Directors continue to adopt the going concern basis in the preparation of the financial statements.

**Outlook**

Following the completion of the capital restructuring in April 2017 we have a strong balance sheet that will allow us to fully pursue our strategy of achieving long term value creation for all our stakeholders.

**Julian Tedder**

Chief Financial Officer

**Adjusted EBITDA**

	Year to 31 December 2016 £m	Nine months to 31 December 2015 £m
Loss before tax	(44.8)	(64.5)
Net finance costs	28.8	7.8
Depletion, depreciation & amortisation	6.5	7.2
Share based payment charges	2.6	0.5
Restructuring costs and one-off costs relating to INEOS farm-out	0.6	2.7
Impairments/write offs	4.5	69.8
Unrealised loss/(gain) on hedges	12.0	(5.3)
<b>Adjusted EBITDA</b>	<b>10.2</b>	<b>18.3</b>

**Underlying Operating Profit**

	Year to 31 December 2016 £m	Nine months to 31 December 2015 £m
Operating loss	(16.0)	(56.6)
Share based payment charges	2.6	0.5
Restructuring costs and one-off costs relating to INEOS farm-out	0.6	2.7
Impairments/write offs	4.5	69.8
Unrealised loss/(gain) on hedges	12.0	(5.3)
<b>Underlying operating profit</b>	<b>3.7</b>	<b>11.1</b>

# RISKS AND UNCERTAINTIES

## RESPONSIBLE RISK MANAGEMENT

### Principal risks and uncertainties

The Group constantly monitors the Group's risk exposures and reports to the Audit Committee and the Board on a regular basis. The Audit Committee receives and reviews these reports and focuses on ensuring that the effective systems of internal financial and non-financial controls

including the management of risk are maintained. The results of this work are reported to the Board which in turn performs its own review and assessment.

### Strategic

Exposure to political risk. This can include changes in Government or the effect of a local or national referendum. These political risks can result in changes in the regulatory or fiscal environment (including taxation) which could affect the Group's ability to deliver its strategy.

CEO –  
Stephen  
Bowler

Through UKOOG and other industry associations the Group engages with government and other appropriate organisations to ensure the Group is kept abreast of expected potential changes and takes an active role in making appropriate representations.

Magnitude  
Medium

Likelihood  
Low

Strategy fails to meet shareholder expectations.

CEO –  
Stephen  
Bowler

Provide clear, transparent and consistent communication to all stakeholders. Ensure delivery against the five year plan

Magnitude  
Medium

Likelihood  
Medium

### Operational

Planning, environmental, licensing and other permitting risks associated with operations and, in particular, with drilling and production operations.

COO –  
John  
Blaymires

The Group considers that such risks are partially mitigated through compliance with regulations, proactive engagement with regulators, communities and the expertise and experience of its team

Magnitude  
High

Likelihood  
Medium

Oil or gas is not produced in the anticipated quantities from any or all of the Group's assets or that oil or gas can be delivered economically.

COO –  
John  
Blaymires

The Group considers that such risks are mitigated given that its producing assets are located in established oil and gas producing areas, there is a portfolio of producing assets and its operating staff have extensive expertise and experience

Magnitude  
Medium

Likelihood  
Low

Successful development of shale gas resources is not achieved

COO –  
John  
Blaymires

Investment in further data acquisition, drill wells to get core and log data and deliver successful flow tests. Work with our Joint Venture partners to identify prospective drilling opportunities.

Magnitude  
High

Likelihood  
Medium

Loss of key staff.

CEO –  
Stephen  
Bowler

Provide and maintain a competitive remuneration package to attract the correct calibre of staff. Build a strong and unified team and ensure we have a clearly defined people strategy based on culture and talent. Development plans in place for all staff

Magnitude  
Medium

Likelihood  
Low

### Financial

## A reminder of our strategy

Developing shale portfolio      Reserves and production growth      Local and national engagement

Exposure to market price risk through variations in the wholesale price of oil in the context of the production from oil fields it owns and operates.	CFO – Julian Tedder	<p>The Group has hedged a total of 390,000 barrels over the year to 31 December 2016, through a mixture of put and zero cost collars and capped swaps</p> <p>The Board seeks to underpin the Group's future cash flows by entering into a combination of put and call options structured at zero cost for baseline production to cover 12 months forward. The Board will continue to monitor the benefits of such hedging</p>	<p>Magnitude High</p> <p>Likelihood High</p>
Exposure to market price risk through variations in the wholesale price of gas and electricity in the context of its future unconventional production volumes	CFO – Julian Tedder	The Board monitors the benefit of entering into contracts at the appropriate time to protect against gas and electricity price volatility.	<p>Magnitude Medium</p> <p>Likelihood Low</p>
Exposure to exchange rate risk through both its major source of revenue and its major borrowings being priced in \$.	CFO – Julian Tedder	The Board monitors the cash flows of the Group to ensure currency exposure is understood. Exchange rate hedges are considered to ensure that cash inflows in dollars are matched with sterling cash outflows.	<p>Magnitude Medium</p> <p>Likelihood Medium</p>
Exposure, through its operations, to liquidity risk.	CFO – Julian Tedder	The Board regularly reviews the Group's cash forecasts and the adequacy of available facilities to meet the Group's cash requirements	<p>Magnitude High</p> <p>Likelihood Medium</p>
The Group is exposed to capital risk resulting from its capital structure, including operating within the covenants of its existing bond agreements.	CFO – Julian Tedder	The capital structure is continually monitored to ensure it is in line with the business needs and ongoing asset development. Further details of the Group's capital management policy are disclosed in note 25 to the consolidated financial statements.	<p>Magnitude High</p> <p>Likelihood High</p>

## SUSTAINABLE AND RESPONSIBLE BUSINESS CARING FOR OUR PEOPLE AND THE ENVIRONMENT

### IGAS COMMUNITY FUND

Since its launch  
in 2008, the  
Community  
Fund has  
awarded more  
than £850,000  
to local  
communities

Find out more on our Community Fund website

➤ [www.igascommunityfund.co.uk](http://www.igascommunityfund.co.uk)

The IGas grant has allowed us to repair the leaky roofs of two of our community buildings and to replace two dilapidated sheds with modern, dry units. The benefit to *the Tindall Street Allotment Group* is fantastic and without IGas we would have taken years to raise sufficient funding.

**Geoffrey Hamilton**

*Volunteer, Tindall Street Allotment Group*

This was a fantastic project that saw everyone, young and old, working together. From start to finish this project benefited people and the newly installed raised allotment beds continue to offer many hours of enjoyment.

**Hannah Taylor-Dales**

Fundraising Coordinator, ACIS Group

### North West Tindall Street Allotments Group

#### Amount awarded

£3,352

The Group manages a site that provides educational, social and recreational activities for the allotment holders and local community groups, such as MacMillan Cancer Support Gardening Group. The buildings are vital for storing equipment and for providing warm and comfortable shelter during inclement weather. We awarded £3,352 to the group to repair and improve these facilities.

### North West Healthbox CIC

#### Amount awarded

£5,996

Healthbox CIC specialise in delivering health promotion and wellbeing projects to schools, the NHS, local authorities and the third sector. Our grant ensures that all sessions are well equipped with interactive materials, and that participants are able to take material home to enforce the messages delivered and to aid their commitment to implementing healthy behaviour in their home.

### East Midlands ACIS Group

#### Amount awarded

£4,590

We donated £4,590 to the 'Growing Together' project for tools and equipment. The project sees students at risk of exclusion working with ACIS Group, to build and maintain raised flower beds for elderly and disabled residents in sheltered housing estates. The students learn to respect the environment they are in and gain a sense of purpose when they see the positive contribution they are making to other people's lives. The equipment purchased will be available for both the elderly and students to use in years to come.

The Friends of Nore Barn Woods were delighted to receive a grant from IGas. It was a struggle to raise enough funds and IGas money came at just the right moment in our campaign. Big thanks, IGas!"

**Roy Ewing**

Chair of The Friends of Nore Barn Woods

### South Longparish Community Association

#### Amount awarded

£1,000

A grant of £1,000 was awarded towards the cost of purchasing and installing three defibrillators in the village of Longparish. This number of defibrillators was advised as required by the South Central Ambulance Service to cover the main population clusters, school and recreational facilities.

### South Friends of Nore Barn Woods

#### Amount awarded

£2,500

Friends of Nore Barn Woods is a voluntary group that conserve the woods and coastline. The woods are situated within an Area of Outstanding Natural Beauty and are enjoyed by family groups, hikers and bird watchers. Our grant went towards protecting the area from coastal erosion as well as expanding the habitat for golden samphire, a scarce plant.

# SUSTAINABLE AND RESPONSIBLE BUSINESS CONTINUED

## HEALTH, SAFETY, ENVIRONMENT AND QUALITY

IGas is committed to delivering the highest standards in occupational Health, Safety, Environment and Quality ("HSEQ").

Despite the lower oil price and the need for focus on costs and streamlining and improving business efficiencies we have not compromised on the integrity and safety of our operations. We are pleased to report an increase in our leading indicators and reporting incidences based on Key Performance Indicators ("KPIs").

The HSE team works hard to ensure that health, safety and environmental factors are embedded into daily operations. The Company has delivered another year without Lost Time Injury ("LTI"), which now stands at over 924 days, as at 31 December 2016. IGas continues to drive awareness and improvements through awareness campaigns and engagements through its committee of Representatives for Safety.

As part of the Company's commitment to ESOS (Energy Saving Opportunity Scheme) IGas has sought to invest in projects that help to improve energy efficiencies across the business. Examples include the following:

- IGas is the first onshore operator to take power direct from a solar farm at Cole Hanworth and we have introduced several electric vans in the East Midlands and continue this roll out where optimal;
- Reduced power consumption in oil extraction activities at Goodworth where the artificial lift method has been changed and realised a 77% reduction in power consumption. Artificial lift is the abstraction of liquids from the subsurface reservoir to surface by mechanical means. These methods are generally used when there is insufficient energy in the reservoir to lift the fluids to surface. Regular monitoring and diagnostics of well and pump performance give us the opportunity to optimise the artificial lift system and reduce power consumption;
- The Company is investing in real time well integrity data which will enhance the preventative maintenance routines already in place; and
- We are fitting annulus pressure monitoring that trends the pressures and also triggers alarms if the pressures move outside of specific parameters.

The Company is working hard to ensure all waste streams are recycled and not disposed of in order to minimise the impact on the environment. We regularly audit our waste streams and work closely with our contractors to ensure the appropriate recovery and recycle options are used. ISO 9001/14001 accreditation continues to be an important part of the business that demonstrates we have management systems in place that meet the requirements of the international standards.

### Tenth Consecutive Gold Award for Health and Safety performance

IGas received the President's Award, which is for ten consecutive years of Gold Awards, for its health and safety performance in the prestigious annual scheme run by the Royal Society for the Prevention of Accidents ("RoSPA").

The internationally recognised RoSPA occupational Health and Safety Awards, is one of the most sought after awards from a range of organisations. Judges consider entrants' health and safety management systems, including practices such as leadership and workforce involvement.

## Q&A with Stewart Reast, Director HSEQ

### Q Why is Health and Safety important to IGas?

**A** Health and Safety is the key to successful operations and is an integral part of the job, not a bolt on. Through monitoring, training, coaching and advising we maintain high standards of achievement. Setting targets for leading indicators helps retain a safe environment to work in. Key to this is to report hazardous observations so the issues can be dealt with before they become an incident.

### Q What does your team do?

**A** There are four people in the team who cover both specialist areas and geographic regions.

We have an environmental and permitting specialist who is the point of contact for all environmental regulatory communications and reporting to the Environment Agency for IGas producing sites. They also manage general environmental issues such as waste, communicating Company environmental policy and procedures, and changes to legislation affecting the Company's operations.

Other members of the team cover a number of areas including providing general support, site inspections, audits (both internally & externally) and incident investigation. We operate a health and safety software system for incident reporting called OSHENS and the team is responsible for tracking and monitoring the inputs and managing and reporting any investigations as well as raising actions arising from site inspections and audits.

We track changes in HSE legislation and ensure that the appropriate Company policies and procedures are updated and implemented accordingly. Additionally, we provide support to the project teams by inputting to and reviewing workover programmes, and developing the health and safety documents for drilling projects.

We also provide advisory support to Production and Operations and in addition to independent inspections, carry out our own regular rota of site inspections and maintain a site audit schedule.

### Q When issues arise, how are they processed and mitigated against so that they don't occur again?

**A** We have a defined Company procedure for incident reporting and follow up. We encourage visibility and transparency across the Company. All incidents and hazardous observations are entered into OSHENS, these are then reviewed and assessed by management to determine the level of risk of the event. Based on the outcome, corrective actions are implemented to reduce the possibility of reoccurrence. The lessons

learned are published and information is posted on Company notice boards. In addition supervisors will carry out toolbox talks ("TBTs") and if necessary we may develop a specific communication campaign to reinforce a particular issue.

### Q What are some of the projects you have been working on recently?

**A** With the changes in the EU Regulation on Classifications labelling and packaging of substances and mixtures, the crude oil stored at our Holybourne site is now classified as a Category 1 substance, resulting in the site being re-classified as an upper Tier COMAH (Control of Major Accident Hazards) site. The purpose of the COMAH Regulations is to prevent major accidents involving dangerous substances and to limit the consequences to people and the environment of any accidents which do occur. The Company has prepared and submitted a safety report as required by the regulations and has been subject to a Competent Authority planned intervention inspection.



# SUSTAINABLE AND RESPONSIBLE BUSINESS CONTINUED

## CARING FOR OUR PEOPLE

Like any company, the ongoing success of our business is underpinned by our ability to recruit, retain and motivate high-quality, skilled employees and contractors. Our experienced and motivated staff are key to the success of IGas, and we are committed to developing our employees through investment in technical and professional development and by promoting diversity, fairness and respect in the workplace.

Continuing the practice of recent years, IGas committed to two further apprentices during 2016. Continuing our partnerships with the Humberside and Southampton engineering training associations the Company recruited two Apprentice Mechanical Engineers to train and work alongside our production operators in the East Midlands and in the Weald.

**Our experienced and motivated staff are key to the success of IGas, and we are committed to developing our employees through investment in technical and professional development and by promoting diversity, fairness and respect in the workplace.**

We also extended a regional "Three Stage" development programme to include all junior Production and Well Service operatives across the country. Under this scheme, operatives who are new to our industry are given a baseline assessment and recognised and rewarded for demonstrating up to three subsequent levels of achievement, typically over a three year period, as they develop in the role.

One of the tools for delivering training, available to every employee, is a suite of on-line training courses provided by Safetycare, covering topics from behavioural safety through hazard and risk assessment, to the use of heavy engineering equipment and CoSHH (Control of Substances Hazardous to Health). In addition to modules mandatory for all staff, the successful completion of specific courses also constitutes part of the role-specific annual 'Competency Assessment.' The training videos can also be used as part of a tailored approach to team safety briefings – whether it be an office or field environment.

### **Royal Navy Reserves** **By Jack Parker, Maintenance Technician ("E&I")**

I joined the Royal Navy Reserve whilst maintaining my full time job at IGas because I wanted to occupy my spare time in a more positive way and I felt like a new challenge. I dedicate four evenings and one weekend a month.

*The time commitment needed to be a reservist is significant, and I wouldn't want to play it down, but it's far from unachievable. I like the change I have seen in myself and people have noticed in me, I feel more confident and a lot more able to take on new challenges that I wouldn't have looked at twice before, whilst knowing my boundaries.*

So far this year, I've spent a weekend in Dartmouth onboard a mine-sweeper at the Royal Navy College, and three and a half weeks spread into weekends and a two week stint at H M S Raleigh (Plymouth) training base. I spent a week learning about weapon systems, defence drills and how to survive a 24 hour exercise with the Royal Marines.

This was an unforgettable experience, especially in winter! During my two weeks at Raleigh, I joined up alongside the week eight regular Navy, who spent a total of ten weeks down there. The course was extremely physical, as well as mentally demanding as we were expected to be at the same level as the regulars, but I managed to complete my phase one training and passed out on 18 November 2016.

There were times where I didn't think I would ever accomplish my training and I would have to give up my commitment, however with the help of IGas and my supervisors I managed to overcome that doubt and achieve my goal.

The Strategic Report, as set out on pages 2 to 40, has been approved by order of the Board

**Cooley (UK) LLP**  
Secretary  
IGas Energy plc  
Registered Office,  
7 Down Street  
London  
W1J 7AJ

# INTRODUCTION TO GOVERNANCE

The Board supports high standards of corporate governance, which we believe is key to the successful delivery of our strategy.

## Introduction

The Board is fully committed to ensuring that high standards of governance, values and behaviours are consistently applied throughout the Group, helping to ensure the integrity of our business, the successful delivery of our strategy and the long term success of the Company.

## Board focus in 2016

With the back drop of a low oil price environment and potential breaches of debt covenants, the Board spent a significant amount of time on discussing a capital restructuring with all key stakeholders during the year. This was ultimately successfully completed in April 2017 with new equity of \$55 million being raised, \$40 million of secured bonds being exchanged for equity and \$49.2 million being bought by the Company, \$27.4 million unsecured bonds being exchanged for equity and the remaining secured bond terms being changed. Throughout the discussions the Board ensured that all stakeholders' interests were being best served by any proposals.

Following the completion of the restructuring we now have a strong balance sheet and we can now look forward to delivering against our strategy of developing our shale portfolio utilising the carry of up to \$230 million, maintaining steady production and growing our reserves with selective investments, whilst doing this operating responsibly in partnership with local communities and our stakeholders.

## How we manage our Company

The Board is responsible for the overall governance of the Group. Its responsibilities include reviewing and approving the Group's strategy, budgets, major items of capital expenditure and senior personnel appointments.

### Audit Committee

The Audit Committee is responsible for monitoring and reviewing the integrity of the financial reporting processes and ensuring the financial statements give a true and fair view of the Company.

➤ [Read more pg 44](#)

### Remuneration Committee

The Remuneration Committee is responsible for determining and agreeing the remuneration policy for the Executive Directors.

➤ [Read more pg 45](#)

### Nomination Committee

The Nomination Committee is responsible for reviewing the size, structure and composition of the Board and ensuring the balance and expertise of the Board remains appropriate to meet the needs of the Company.

➤ [Read more pg 46](#)

## BOARD OF DIRECTORS COHESIVE LEADERSHIP

The Board is a highly experienced team of experts, committed to delivering shareholder value and to working in partnership with the communities in which IGas operates.

**Name** Francis Gugen

**Role** Non-executive Chairman  
**Appointed** 2008

**Skills and experience**

Francis is a founder and Non-executive Chairman and has 40 years' oil and gas industry experience

*Between 1982 and 2000 he helped grow Amerada Hess in North West Europe, ultimately becoming regional CEO.*

Currently his other oil and gas interests comprise being a board member and chair of the Audit Committee of SBM Offshore NV, Senior Advisor to Chrysaor Limited and a member of the board of POWERful Women, set up to encourage more women into energy. Previously, until 2006 he served as Non-executive Chairman of the start-up North Sea gas fields and pipelines operator, CH4 Energy Limited, which was subsequently disposed of for €224 million, until May 2016 as Chairman of Petroleum Geophysical Services ASA, the world's leading offshore seismic provider, and until January 2017 as Chairman of Chrysaor Limited, which has recently acquired a package of assets from Shell for \$3 billion

**Name** Stephen Bower

**Role** Chief Executive Officer  
**Appointed** 2015

**Skills and experience**

Steve became Chief Executive Officer in May 2015 having joined IGas as Chief Financial Officer in 2011

*He qualified as a chartered accountant with Touche Ross, now Deloitte. In 1999, Steve joined ABN Amro Hoare Govett, now part of Jefferies, where he acted as adviser and broker to a wide range of UK listed companies in the oil and gas sector*

Steve advised Star Energy on its IPO in 2004. The Star Energy producing assets were acquired by IGas in 2011, transforming IGas at that time to become one of the leading UK onshore oil and gas companies

Over the past five years, Steve has been a key member of the executive team that has been successful in bringing in our joint venture partners such as Total and most recently INEOS in 2015 as well as leading the recent refinancing of the Company

**Name** John Blaymires

**Role** Chief Operating Officer  
**Appointed** 2010

**Skills and experience**

John has over 30 years of 'international experience in the oil and gas industry gained with Hess Corporation and Shell International.

Before joining IGas he was Director of Technology Development for Hess based in Houston, where he helped develop a global engineering and geoscience technology group responsible for providing support across the F&P business, from deepwater to unconventional resources

Prior to that John was Technical Director for Hess' operations in West Africa, and subsequently South East Asia with responsibility for several major oil and gas developments. John has a BSc and PhD in Mining Engineering from Leeds University

**Name** Julian Tedder

**Role** Chief Financial Officer  
**Appointed** 2015

**Skills and experience**

Julian became Chief Financial Officer in September 2015

A chartered accountant, Julian has 15 years' senior management experience both at operational and group level within the international oil and gas sector, including Centrica plc and Tullow Oil plc. Most recently, Julian was General Manager, Finance for Tullow Oil, having worked at the company for over 10 years, where he was ultimately responsible for over 190 staff across the finance function

**Name** Mike McTighe

**Role** Non-executive Deputy Chairman  
**Appointed** 2016

**Skills and experience**

*Mike has held a variety of Non-executive director roles in public and private companies over the last 18 years and was on the Board of Ofcom, the UK's independent telecoms regulator*

Mike is currently Chairman of WYG Ltd, the project management and technical consultants, Openreach, Together Financial Services Ltd, Arran Isle Ltd and Gortmullan Holdings Ltd

During his career, Mike has held a number of senior executive roles in international businesses including Cable & Wireless, Philips, GE and Motorola

### Committees member key

<b>A</b>	Audit Committee	Chair of Committee
<b>R</b>	Remuneration Committee	Member of Committee
<b>N</b>	Nomination Committee	

#### **Name** John Bryant

**Role** Senior Independent Non-executive Director

**Appointed** 2008

#### **Skills and experience**

John is Chairman of Weatherly International plc, and a board member of China Africa Resources Plc and Victoria Oil and Gas Plc. All of these companies are AIM-listed.

John previously served as President of Cinergy Global Resources Corp, responsible for all international business and global renewable power operations of this US-based electricity and gas utility provider and on the Board of the Attiki Gas Company, which supplies natural gas to Athens and the surrounding districts.

#### **Name** Cuth McDowell

**Role** Non-executive Director

**Appointed** 2012

#### **Skills and experience**

Cuth has 37 years of international experience in the oil and gas sector, having held a range of leadership positions in Exploration and Production.

He began his career with BP, where he held various commercial and management roles over eight years. Cuth then joined Clyde Petroleum plc, initially as Senior Economist, subsequently becoming Group Commercial Manager before Clyde was bought by Gulf Canada.

In 1997, Cuth joined Paladin Resources plc, where he served primarily as Finance Director, before the company was sold to Talisman Energy Inc. in 2006.

Cuth is currently chairman at Quotall Ltd, an unlisted software development company.

#### **Name** Philip Jackson

**Role** Non-executive Director

**Appointed** 2017

#### **Skills and experience**

Philip serves on Kerogen's Investment Committee. He has over 30 years' experience in investments and corporate finance in energy and infrastructure projects. He was the founder and former chief executive of J.P. Morgan Asset Management's \$860 million Asian Infrastructure and Related Resources Opportunity Fund. Philip was with J.P. Morgan (and heritage Jardine Fleming) for over 20 years, leading their power and infrastructure advisory businesses, advising on restructuring, M&A and privatisation. He started his career with the energy team at Ashurst LLP before moving to its client Trafalgar House plc, one of the UK's leading independent oil and gas companies.

Philip graduated with an MA in law from the University of Cambridge and is a solicitor of the Supreme Court in England.

#### **Name** Tushar Kumar

**Role** Non-executive Director

**Appointed** 2017

#### **Skills and experience**

Tushar is a member of the Investment and Portfolio Management team at Kerogen Capital. He has 15 years' experience in investing, investment banking and equities, working with a range of oil and gas companies including upstream, downstream, majors and NOCs across Europe, the Middle East and Asia. He has experience in strategic advisory, particularly focused on M&A, IPOs, debt and equity financing as well as balance sheet restructuring. Prior to joining Kerogen, he was an executive director at Morgan Stanley's natural resources group in London, having previously worked with members of the Kerogen team at J.P. Morgan's energy and natural resources group in Hong Kong.

Tushar holds an MBA from the Indian Institute of Management Ahmedabad (IIMA) and a BTech in computer science and engineering from the Indian Institute of Technology (IIT). He is also a CFA charterholder.

# CORPORATE GOVERNANCE

The Board of Directors supports high standards of corporate governance and the guidance set out in the UK Corporate Governance Code. As an AIM listed company, iGas Energy plc is not obliged to comply with The UK Corporate Governance Code published by the Financial Reporting Council in April 2016 (the "Code") but instead uses its provisions as a guide, only as considered appropriate to the circumstances of the Company.

## The Board and its Committees

The Board of the Company consists of three Executive Directors and six Non-executive Directors; with Mr Bryant, Mr McDowell and Mr McTighe (appointed 3 August 2016) being considered to be independent. Mr Jackson and Mr Kumar were appointed on 26 April 2017 following the completion of the refinancing. The Senior Independent Non-executive Director is John Bryant and biographies of all the Directors are included within the Annual Report on pages 42 to 43.

The Board retains full and effective control over the Group. The Board meets regularly to consider reports on the operational and financial performance of the Group and to decide on matters reserved unto itself, which include reviewing and approving the Group's strategy, budgets, major items of capital expenditure and senior personnel appointments.

## Board membership

Board member	Meetings attended (out of a total possible)
Francis Gugen (Chairman)	23/23
Stephen Bowler	23/23
John Blaymires	21/23
Julian Tedder	23/23
John Bryant	23/23
Cuth McDowell	23/23
Robin Pinchbeck (resigned 3 August 2016)	11/13
Mike McTighe (appointed 3 August 2016)	10/10
Philip Jackson (appointed 26 April 2017)	n/a
Tushar Kumar (appointed 26 April 2017)	n/a

The Board met on a significant number of occasions during the year, principally to discuss the proposed capital restructuring of the Group. During the year the Board established a Strategy Committee to consider the capital restructuring of the Group and make recommendations to the Board for consideration.

The Board now has four separate Committees each chaired by a Non-executive Director as follows.

## Audit Committee

The Committee comprises only Non-executive Directors, being chaired by Cuth McDowell and having as other members John Bryant, Mike McTighe (appointed 3 August 2016) and Tushar Kumar (appointed 26 April 2017). Meetings are aligned with the Group's financial reporting calendar and in the year ended 31 December 2016 the Committee met on five occasions. The Chief Financial Officer and Group Financial Controller are invited to attend each meeting of the Committee and participated in all of the meetings during the period. The external auditors are also invited to attend meetings of the Committee as appropriate and also meet the Committee without the presence of management at least annually.

## Audit Committee membership

Committee member	Meetings attended (out of a total possible)
Cuth McDowell (Chairman)	5/5
John Bryant	5/5
Robin Pinchbeck (resigned 3 August 2016)	2/2
Mike McTighe (appointed 3 August 2016)	2/3
Tushar Kumar (appointed 26 April 2017)	n/a

### Summary of the Committee's responsibilities

The Committee's responsibilities include the following:

- The Committee reviews reports from management and the Group's auditors relating to the Group's Annual Report and Accounts and the interim results announcements. The Committee advises the Board on whether the annual report and interim announcement are fair, balanced and understandable and provide the information necessary for IGas' stakeholders to assess performance against the Group's strategy;
- The Committee reviews compliance with legal requirements, accounting standards and the AIM Rules and on ensuring that effective systems of internal financial and non-financial controls (including for the management of risk and whistle-blowing) are maintained. However, the ultimate responsibility for reviewing and approving the annual report and accounts remains with the Board of Directors;
- The Committee keeps under review the external auditor's independence and considers the nature, scope, and results of the auditor's work and develops policy on and reviews (reserving the right to approve) any non-audit services that are provided by the external auditors. The Committee is responsible for making recommendations to the Board of Directors on their appointment and remuneration.

### Key areas of focus in the year ended 31 December 2016

The Committee's particular areas of focus during the year were as follows:

- Review of the 2015 Annual Report and of the significant risks identified which included the going concern assessment, including covenant compliance, impairment of oil and gas properties; recoverability of goodwill, and reserves and resources disclosures;
- Review of the six months ended 30 June 2016 interim results announcements and of the significant risks which included the going concern assessment, including covenant compliance, impairment of oil and gas properties; and reserves and resources disclosures; and
- Re-tendering the contract for audit services, reviewing all tenders and meeting all shortlisted audit firms and ultimately proposing to the Board that PWC be appointed auditors following the tender process.

### Remuneration Committee

- The Committee comprises only Non-executive Directors, being chaired by John Bryant and having as other members Mike McTighe (appointed 3 August 2016), Cuth McDowell and Philip Jackson (appointed 26 April 2017). The Committee met on three occasions in the year ended 31 December 2016. The Chief Executive Officer is invited to attend meetings. In accordance with the Committee's terms of reference, no Director may participate in discussions relating to their own terms and conditions of service or remuneration.

### Remuneration Committee membership

Committee member	Meetings attended (out of a total possible)
John Bryant (Chairman)	3/3
Cuth McDowell	3/3
Robin Pinchbeck (resigned 3 August 2016)	3/3
Philip Jackson (appointed 26 April 2017)	n/a

### Summary of the Committee's responsibilities

The Committee's responsibilities include the following:

- Making recommendations to the Board of Directors on the Company's policy on the remuneration of the Chairman, Executive Directors and other Senior Executives (as are delegated to the Committee to consider);
- Determining, within agreed terms of reference, the remainder of the remuneration packages for each of them, including pension rights, any compensation payments and the implementation of executive incentive schemes;
- Monitoring the level and structure of remuneration for Senior Management;
- Reviewing the design of share incentive plans for approval by the Board and determining the policy on annual awards to Executive Directors and Senior Executives; and
- Reviewing progress made against performance targets and agreeing incentive awards

### Key areas of focus in the year ended 31 December 2016

The Committee's particular areas of focus during the year were as follows:

- Review of long term incentive plans, engaging with an advisor and ultimately approving a newly created Executive Incentive Plan and the issue of awards under that plan to Senior Management;
- Approving the issue of stock awards under the Management Retention Plan to all staff in lieu of a cash bonus for the year ended 31 December 2015;
- Review of implications of changes to pension allowances and full review of all benefits offered to staff in light of the focus on all costs of the Group; and
- Review of performance in the year ended 31 December 2016 and in light of the financial situation of the Company recommending to the Board that no bonus be paid.

# CORPORATE GOVERNANCE CONTINUED

## Nomination Committee

The Nomination Committee is chaired by the Chairman, Francis Gugen, and its other members are the Senior Independent Non-executive Director, John Bryant and Philip Jackson (appointed 26 April 2017). The Chief Executive Officer of the Company is invited to attend meetings of the Committee when the Committee is discussing matters related to executive management and such other matters as the Committee chairman deems appropriate. The Committee meets as required during the year.

## Nomination Committee membership

Committee member	Meetings attended (out of a total possible)
Francis Gugen (Chairman)	2/2
John Bryant	2/2
Philip Jackson (appointed 26 April 2017)	n/a

## Summary of the Committee's responsibilities

The Committee's responsibilities include the following:

- Considering the size, structure and composition of the Board of Directors, retirements and appointments of additional and replacement Directors and making appropriate recommendations to the Board of Directors;
- Making recommendations to the Board regarding membership of the Audit and Remuneration Committees; and
- Ensuring that plans are in place for orderly succession to the Board of Directors and senior management positions, so as to maintain an appropriate balance of skills and experience within the Group and the Board of Directors.

## Key areas of focus in the year ended 31 December 2016

The principal activities of the Committee during the year were as follows:

- Proposing the appointment of Mike McTighe to the Board as a Non-executive Director following the resignation of Robin Pinchbeck; and
- Succession planning was reviewed in the year and work in this area will continue in 2017.

## Strategy Committee

The Strategy Committee was established during the year and is chaired by Mike McTighe (appointed 3 August 2016), and its other members are Cuth McDowell, Stephen Bowler and Julian Tedder. The Committee was established in response to the Group's financial situation and potential default of its bond covenants. The Committee meets as required during the year.

## Strategy Committee membership

Committee member	Meetings attended (out of a total possible)
Mike McTighe (Chairman) (appointed 3 August 2016)	23/31
Cuth McDowell	29/31
Stephen Bowler	31/31
Julian Tedder	31/31

## Summary of the Committee's responsibilities

The Committee's responsibilities include the following:

- Liaising with the Group's financial advisors to develop a restructuring strategy;
- Developing restructuring and investment proposals to take to current and potential investors and/or bondholders and/or considering any restructuring and investment proposals which are made to the Group;
- Monitoring cash flows and compliance with bond covenants on an ongoing basis; and
- Providing formal recommendations to the Board in relation to any restructuring proposals.

## Key areas of focus in the year ended 31 December 2016

The principal activities of the Committee during the period were as follows:

- Exploring all available options for a capital restructuring and developing a strategy for approval by the Board;
- Reviewing the Group's cash flows and covenant compliance. Proposing a sale of \$8 million secured bonds owned by the Group to ensure compliance with the Group's daily liquidity covenant in November 2016;
- Discussing an equity investment with a strategic investor and supporting them with their due diligence of the Group. Discussing a proposal for additional equity with institutional investors;
- Discussing the restructuring strategy with the secured and unsecured bondholders and getting their support to the proposals;
- Ensuring that the Bond Trustee was kept fully apprised of the restructuring proposals and ensuring they were supportive;
- Ensuring that the Group was fully compliant with its AIM reporting obligations in relation to its financial situation; and
- Preparing all documentation required for General meetings of the bondholders and shareholders for approval of the proposed restructuring in April 2017.

### Internal control

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

The Group'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 Group'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. Risk assessment and evaluation is an integral part of the annual planning cycle;
- The Group has in place internal control and risk management systems in relation to the Group's financial reporting process and the Group'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 Chief Financial Officer, Group 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 Group, does not consider it necessary at the current time.

### UK Bribery Act

IGas 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 Group and has initiated a rolling programme of anti-bribery and corruption training for all relevant employees.

### Relations with shareholders

Communications with shareholders and bondholders are considered important by the Directors. The primary contact with shareholders, bondholders, investors and analysts is the Chief Executive Officer. The other Executive Directors, 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 Group's progress.

The Company also maintains a website ([www.igasplc.com](http://www.igasplc.com)) that is regularly updated and contains a wide range of information about the Group.



# 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.

## Annual statement

Recognising a year which saw the continued impact of low oil prices and ongoing financial restructuring of the Company it was considered appropriate to impose a Company-wide restriction on pay awards for the third consecutive review cycle and to also declare no cash payments under the annual short term incentive bonus programme.

The Remuneration Committee has also considered, but determined not to make a second annual award under the long term incentive scheme known as the Executive Incentive Plan ("EIP") at this time. Mechanics of this scheme were detailed in the 2015 Annual Report and details of the subsequent awards to Directors in March 2016 are set out in the Annual Report on Remuneration below.

In advance of changes to the 'Lifetime' and 'Annual' pension allowances which came into effect in April 2016, the Board approved a recommendation by the Remuneration Committee that Directors and other senior executives of the Company likely to be impacted by the changes participate in a cash-substitution arrangement. Under this arrangement, the Company makes a taxable cash payment as an alternate to a pension contribution, subject to an offset to reflect the additional employer's National Insurance contributions falling due. All three Executive Directors have elected to receive part or all of their contractual pension entitlements as cash under this arrangement.

## Directors' remuneration policy

### 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, benefits, 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 Directors 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 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.

The elements of the reward package are detailed below:

<p><b>Base salary</b></p> <p>The purpose of the base salary is to:</p> <ul style="list-style-type: none"> <li>• help recruit and retain key individuals; and</li> <li>• reflect the individual's experience, role and contribution within the Company; and ensure fair reward for "doing the job".</li> </ul>	<p>The Committee reviews base salaries annually to ensure that Executive Directors' pay remains competitively aligned with external market practices.</p> <p>In determining whether to increase levels the Committee will take the following into consideration:</p> <ul style="list-style-type: none"> <li>• the performance of the individual Director;</li> <li>• the individual Director's experience and responsibilities;</li> <li>• impact on fixed costs of any increase; and</li> <li>• pay and conditions throughout the Company.</li> </ul>	<p>The Committee will retain the discretion to increase an individual's salary where there is a significant difference between current levels and a market competitive rate for similar positions in similar organisations (based on size, complexity and sector).</p>
<p><b>Other benefits including pension</b></p>	<p>The Company provides Executive Directors with benefits in kind, with a pension contribution up to 15% of base salary, as well as other benefits in kind including medical and disability insurances and death-in-service life assurance.</p>	

<b>Annual Cash Bonus</b>	<p>Executive Directors and staff are eligible to participate in a discretionary bonus plan.</p> <p>The Committee will determine on an annual basis the level of deferral, if any, of the bonus payment into Company shares. Maximum bonus levels and the proportion payable for on target performance are considered in the light of market bonus levels for similar roles among the industry sector.</p> <p>Bonuses paid in cash are not pensionable.</p> <p>In terms of bonus targets a balanced scorecard approach is operated which focuses on a mixture of strategic, operational, financial and non-financial metrics.</p>	<p>The percentage of maximum bonus entitlement received is based on the achievement of individually challenging targets supporting corporate objectives. The maximum potential bonus entitlement for Executive Directors under the plan is to up to 100% of base salary</p>						
<b>Long Term Incentive Plan (“LTIP”)</b>	<p>Under the Long Term Incentive Plan, adopted by the Board in 2011, participants can each be granted two types of award: an Initial Award and an Annual Award. Both types of award are in the form of a nil cost option. If the relevant conditions attaching to the awards are met at the end of a three year vesting period, then the participant has a further seven years in which to exercise the award.</p> <p>The primary purpose of the Initial Award is to aid the recruitment of key executives. These awards vest at the end of a three year performance period provided the Company's share price performance exceeds the Company's weighted average cost of capital of 10%</p> <p>The LTIP also provides for an Annual Award to be granted which will vest at the end of a three year period provided certain challenging corporate performance conditions have been met. The purpose of the Annual Award is to provide a competitive annual total remuneration package which retains and motivates the Executive Directors and other selected executives.</p>	<p>The maximum individual limit for an Initial Award is 300% of salary.</p> <p>The maximum individual limit for an Annual Award in any financial year is 200% of salary (this limit was increased from 150% during the 2014/15 financial year).</p>						
<b>Executive Incentive Plan</b>	<p>Under the EIP adopted by the Board in March 2016, participants are granted a share award in the form of a nil-cost option. This option will be released at the end of a three year holding period provided that the Executive remains in employment and that the Remuneration Committee is satisfied that corporate performance has been satisfactory (with reference to share price). A multiplier will also apply to this share award to ensure that management are focused on the execution of the business strategy and the creation of long term value for shareholders. For the first share award (March 2016) the multiplier was set as follows.</p> <table><tr><td><b>Share price target</b></td><td><b>Multiplier</b></td></tr><tr><td>50p</td><td>1.5 times the number of shares awarded</td></tr><tr><td>75p</td><td>2 times the number of shares awarded</td></tr></table> <p>Executive Directors will be required to build a shareholding over the next five years of at least 150% of salary to further support the alignment of their interests with those of shareholders.</p>	<b>Share price target</b>	<b>Multiplier</b>	50p	1.5 times the number of shares awarded	75p	2 times the number of shares awarded	<p>Annual award to the current Executive Directors of no more than 75% of salary (100% in exceptional circumstances) subject to two times multiplier (i.e. the maximum number of shares which could vest is equal to 150% of salary).</p>
<b>Share price target</b>	<b>Multiplier</b>							
50p	1.5 times the number of shares awarded							
75p	2 times the number of shares awarded							

# DIRECTORS' REMUNERATION REPORT

## CONTINUED

<b>Executive Director Retention Plan</b>	<p>Under the EDRP, participants are granted nil cost options which vest and become exercisable on the first anniversary of grant subject to the Directors' continued employment and to a one year holding period following the date of vesting</p>	<p>The EDRP was adopted as an exceptional share arrangement and S Bowler was made an award of options over 3,500,000 ordinary shares and J Blaymires was made an award of options over 3,000,000 ordinary shares in July 2015</p>
<b>Share Investment Plan ("SIP")</b>	<p>In 2013, the Company adopted an HMRC approved Share Investment Plan for all employees of the Group. The scheme is a tax efficient incentive plan pursuant to which all employees are eligible to subscribe for up to £150 (or 10% of salary, if less) worth of IGas ordinary shares per month.</p> <p>Shares are acquired on a quarterly basis. The Company automatically matches the employee contribution and acquires matching 'Partnership' shares on a 1-to-1 basis. Subject to the Company achieving pre-defined quarterly production targets, the Company increases the matching element for that quarter such that it will contribute Partnership shares on a 2-to-1 basis. To receive their allocation of Company Partnership shares, employees must ordinarily remain employed by the Company for a period of three years from the date of grant of the matching award.</p>	<p>Employees are eligible to acquire up to £150 (or 10% of salary, if less) worth of IGas ordinary shares per month from gross salary.</p> <p>The Company will match the shares purchased on a 1-to-1 basis and, subject to the Company having met pre-defined quarterly production targets, will increase the matching element for that quarter to 2-to-1.</p>

## Annual Report on Remuneration

### Remit of the Remuneration Committee

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

The Committee has engaged the services of PricewaterhouseCoopers LLP ("PwC") to provide wholly independent advice on executive compensation and to assist the Committee in the implementation and evaluation of its long term incentive arrangements.

### Share price movements during the year

The Group's share price as at 31 December 2016 was 10.29p per share. The highest price during the period was 19.11p per share and the lowest share price during the year was 10.29p per share.

### Current arrangements in financial year (Audited)

#### Executive Directors

The Executive Directors are employed under rolling contracts with notice periods of 12 months or less from the Company or Executive

Directors' emoluments for the year/period were as follows.

	Year ended 31 December 2016						Nine months ended 31 December 2015				
	Salary	Payment in lieu of pension	Bonus	Payment for loss of office	Pensions	Total	Salary	Bonus	Payment for loss of office	Pensions	Total
Executive Directors	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
S Bowler – CEO	350	27	–	–	20	397	250	–	–	38	288
J Blaymires – COO	280	27	–	–	–	307	210	–	–	–	210
J Tedder – CFO <sup>1</sup>	250	17	–	–	16	283	66	–	–	10	76
A Austin <sup>2</sup>	–	–	–	–	–	–	66	–	933	10	1,009
Total – Executive Directors	880	71	–	–	36	987	592	–	933	58	1,583

<sup>1</sup> J Tedder was appointed 28 September 2015

<sup>2</sup> A Austin resigned on 31 May 2015

As noted above, and in the 2015 Annual Report and Accounts the Remuneration Committee adopted the IGas Energy PLC 2016 Executive Incentive Plan in March 2016. On 30 March 2016 the Executive Directors received the following 'Base Awards': S Bowler was made a Base Award over 1,481,520 ordinary shares in the Company, J Blaymires was made a Base Award over 1,185,216 ordinary shares in the Company and J Tedder was made a Base Award over 1,058,228 ordinary shares in the Company.

Each of the Executive Directors devotes such time as is required to discharge his duties, which in all cases is full time.

# DIRECTORS' REMUNERATION REPORT

## CONTINUED

### Current arrangements in financial year (Audited) continued

#### Executive Directors continued

As at 31 December 2016, the outstanding long term incentives held by the Directors who served during the period are set out in the table below

Existing long term incentive arrangements:

Executive Director Retention Plan	Date of Grant	At 1 January 2016	Number of Options			As at 31 December 2016	Earliest vesting date	Lapse date
			Granted	Exercised	Lapsed			
S Bowler	13/07/2015	3,500,000	-	-	-	3,500,000	13/07/2016	13/07/2023
J Blaymires	13/07/2015	3,000,000	-	-	-	3,000,000	13/07/2016	13/07/2023

2011 Long Term Incentive Plan	Date of Grant	At 1 January 2016	Number of Options			As at 31 December 2016	Earliest vesting date	Lapse date
			Granted	Exercised	Lapsed/ Waived			
J Tedder	25/11/2015	1,315,789	-	-	-	1,315,789	25/11/2018	25/11/2025

2016 Executive Incentive Plan	Date of Grant	At 1 January 2016	Number of Shares			As at 31 December 2016	Earliest vesting date	Lapse date
			Granted	Exercised	Lapsed			
S Bowler	30/03/2016	-	1,481,520	-	-	1,481,520	30/03/2019	30/03/2026
J Blaymires	30/03/2016	-	1,185,216	-	-	1,185,216	30/03/2019	30/03/2026
J Tedder	30/03/2016	-	1,058,228	-	-	1,058,228	30/03/2019	30/03/2026

#### Non-executive Directors

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

	Year ended 31 December 2016				Nine months ended 31 December 2015			
	Emoluments £000	Taxable benefits £000	Pensions £000	Total £000	Emoluments £000	Taxable benefits £000	Pensions £000	Total £000
Non-Executive Directors								
F Cugen – Non-executive Chairman	105	-	-	105	79	-	-	79
R McTighe – Non-executive Deputy Chairman <sup>1</sup>	41	-	-	41	-	-	-	-
J Bryant – Senior Independent	75	-	-	75	59	-	-	59
R Pinchbeck <sup>2</sup>	29	-	-	29	37	-	-	37
C McDowell	60	-	-	60	45	-	-	45
Total – Non-executive Directors	310	-	-	310	220	-	-	220

<sup>1</sup> R McTighe was appointed 3 August 2016

<sup>2</sup> R Pinchbeck resigned 3 August 2016

#### Implementation of policy in future financial year

For 2017, it is the aim of the Committee to set clear objectives for each individual Director relating to Group KPIs plus individual and strategic targets taking into account where an individual has particular influence and responsibility. The Committee also takes into account overall corporate performance in determining an actual annual bonus payment.

#### John Bryant

Chairman Remuneration Committee

4 May 2017

# DIRECTORS' REPORT

The Directors present their report together with the Group and Parent Company financial statements for the year ended 31 December 2016.

## Business review and future developments

A review of the business and the future developments of the Group are presented in the Chairman's statement, the Chief Executive's statement, the Chief Operating Officer's operating review and the Chief Financial Officer's financial review which are all sections within the Strategic Report.

## Dividends

The Directors do not recommend the payment of any dividend for the year (nine months ended 31 December 2016) (nil).

## Principal activity

The Group's principal area of activity is exploring for, appraising, developing and producing oil and gas.

## Share capital

Details of changes to share capital in the period are set out in note 25 to the consolidated financial statements.

## Directors and their interests

The Directors who served during the year were as follows:

F. Gugen	Non-executive Chairman
S. Bowler	Chief Executive Officer
J. Blaymires	Chief Operating Officer
J. Tedder	Chief Financial Officer
J. Bryant	Non-executive
R. McTighe	Non-executive (appointed 3 August 2016)
R. Pinchbeck	Non-executive (resigned 3 August 2016)
C. McDowell	Non-executive

The beneficial interests of each of the Directors and their immediate families in the ordinary share capital of the Company are shown below:

	31 December 2016		31 December 2015	
	Ordinary 10p Shares		Ordinary 10p Shares	
	Number	%	Number	%
F. Gugen	27,615,764	9.10	27,615,764	9.24
S. Bowler	131,348	0.04	100,808	0.03
J. Blaymires	81,431	0.03	50,851	0.02
J. Tedder	161,066	0.05	140,000	0.05
J. Bryant	59,045	0.02	59,045	0.02
R. Pinchbeck (resigned 3 August 2016)	n/a	n/a	141,000	0.05
C. McDowell	-	-	-	-
R. McTighe (appointed 3 August 2016)	250,000	0.08	n/a	n/a

In addition to the table above, in January and May 2017, S. Bowler, J. Blaymires and J. Tedder subscribed to their entitlement under the Group's share scheme and accordingly were each allotted 28,140, 28,136 and 28,138 shares, respectively, under the Share Investment Plan ("SIP") (further details of the SIP can be found in the Remuneration Report) and on 4 April 2017 the Directors subscribed for and were allotted ordinary shares of 0.0001p each, as part of the Group's refinancing as follows:

	Number
F. Gugen	3,652,867
S. Bowler	1,000,000
J. Blaymires	666,666
J. Tedder	2,222,222
R. McTighe	11,111,111
J. Bryant	1,666,666

In addition, on 4 April 2017, Cuth McDowell elected to participate fully in the voluntary debt for equity swap on his secured bond holding of \$240,000, which resulted in an allotment of 4,383,441 shares.

## Rotation and re-election of Directors

In accordance with the Articles of Association, S. Bowler retires by rotation and, being eligible, offers himself for re-election. R. McTighe, P. Jackson and T. Kumar were appointed by the Board during the period, and in accordance with the Articles of Association, offer themselves for re-election.

## DIRECTORS' REPORT CONTINUED

### Directors' insurance and indemnity provisions

Subject to the conditions set out in the Companies Act 2006, the Company has arranged appropriate Directors' and officers' insurance to indemnify the Directors and officers against liability in respect of proceedings brought by third parties. Such provision remains in force at the date of this report.

The Company indemnifies the Directors against actions they undertake or fail to undertake as Directors or officers of any Group company, to the extent permissible for such indemnities to meet the test of a qualifying third party indemnity provision as provided for by the Companies Act 2006. The nature and extent of the indemnities is as described in Section 60 of the Company's Articles of Association as adopted on 20 June 2010. These provisions remained in force throughout the period and remain in place at the date of this report.

### Substantial shareholders

At 4 May 2017, in addition to the Directors' interests as set out above, the Company had received notification from the following institutions of interests in excess of 3% of the Company's issued Ordinary Shares with voting rights:

	Number of Shares	%
Korogen General Partner II Limited	679,282,165	28.00
Trans European Oil & Gas Luxco II Sarl	376,823,648	15.53
PLUG Investments Limited	103,279,687	4.26

### Financial instruments

The Group's principal financial instruments comprise cash balances, borrowings, derivative instruments and other debtors and creditors that arise through the normal course of business as set out in note 24 to the consolidated financial statements. The Group's financial risk management objectives are also set out in note 24 to the consolidated financial statements.

### Employment policy

It is the policy of the Group to operate a fair employment policy. No employee or job applicant is less favourably treated than another on the grounds of their sex, sexual orientation, age, marital status, religion, race, nationality, ethnic or national origin, colour or disability and all appointments and promotions are determined solely on merit. The Directors encourage employees to be aware of all issues affecting the Group and place considerable emphasis on employees sharing in its success.

### Political contributions

The Group made no political donations during the year (Nine months ended 31 December 2015: £nil).

### Status

The Company is not a close company as defined in the Income and Corporation Taxes Act 1988.

The Company is domiciled in the UK and incorporated and registered in England.

### Board Committees

Information on the Audit, Remuneration, Strategy and Nomination Committees is included in the Corporate Governance section of the annual report.

### Auditors

A resolution to re-appoint PricewaterhouseCoopers LLP as auditors will be proposed at the Annual General Meeting at a fee to be agreed in due course by the Audit Committee and the Board.

### Directors' statement as to disclosure of information to the auditor

So far as each person who was a Director at the date of approving this report is aware, there is no relevant audit information, being information needed by the auditors in connection with preparing its report, of which the auditors are unaware. Having made enquiries of fellow Directors, each Director has taken all the steps that a Director might reasonably be expected to have taken as a Director in order to make himself aware of any relevant audit information and to establish that the Company's auditor are aware of that information.

By order of the Board,

**Cooley Services Limited**

Secretary

iGas Energy plc

Registered Office:

7 Down Street

London

W1J 7AJ

Registered in the United Kingdom number: 04981279



4 May 2017

# DIRECTORS' STATEMENT OF RESPONSIBILITIES IN RELATION TO THE GROUP ANNUAL REPORT AND ACCOUNTS

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The Directors are responsible for preparing the Annual Report and the Group financial statements in accordance with applicable United Kingdom law and regulations. Company law requires the Directors to prepare Group financial statements for each financial period. Under that law, the Directors are required to prepare Group financial statements under International Financial Reporting Standards as adopted by the European Union. Under Company Law the Directors must not approve the Group financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and of the profit or loss of the Group for that period. In preparing the Group financial statements the Directors are required to:

- Present fairly the financial position, financial performance and cash flows of the Group;
- Select suitable accounting policies in accordance with IAS 8, Accounting Policies, Changes in Accounting Estimates and Errors and then apply them consistently;
- Present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- Make judgements that are reasonable;
- Provide additional disclosures when compliance with the specific requirements in IFRSs as adopted by the European Union is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group's financial position and financial performance;
- State whether the Group financial statements have been prepared in accordance with IFRSs as adopted by the European Union, subject to any material departures disclosed and explained in the financial statements; and
- Prepare the accounts on a going concern basis unless, having assessed the ability of the Group to continue as a going concern, management either intends to liquidate the entity or to cease trading, or have no realistic alternative but to do so.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy at any time the financial position of the Group and enable them to ensure that the Group financial statements comply with the Companies Act 2006 and Article 4 of the IAS Regulation. 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 also responsible for preparing the Directors' Report and the Strategic Report in accordance with the Companies Act 2006 and applicable regulations.

## Directors' responsibility statement

The Directors confirm that, to the best of their knowledge:

- The financial statements, prepared in accordance with International Financial Reporting Standards as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit and loss of the Group and the undertakings included in the consolidation taken as a whole; and
- The Strategic Report and the Directors' Report includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal risks and uncertainties faced.

By order of the Board,

  
**Stephen Bowler**  
 Chief Executive Officer  
 4 May 2017

  
**Julian Tedder**  
 Chief Financial Officer  
 4 May 2017



# INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF IGAS ENERGY PLC

## Report on the Group financial statements

### Our opinion

In our opinion, IGas Energy plc's Group financial statements (the "financial statements"):

- give a true and fair view of the state of the Group's affairs as at 31 December 2016 and of its loss and cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006

### What we have audited

The financial statements, included within the Annual Report and Accounts (the "Annual Report"), comprise

- the Consolidated Balance Sheet as at 31 December 2016;
- the Consolidated Income Statement and Statement of Comprehensive Income for the year then ended;
- the Consolidated Cash Flow Statement for the year then ended;
- the Consolidated Statement of Changes in Equity for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information

The financial reporting framework that has been applied in the preparation of the financial statements is IFRSs as adopted by the European Union, and applicable law

In applying the financial reporting framework, the Directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

### 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

In addition, in light of the knowledge and understanding of the Group and its environment obtained in the course of the audit, we are required to report if we have identified any material misstatements in the Strategic Report and the Directors' Report. We have nothing to report in this respect.

### Other matters on which we are required to report by exception

#### Adequacy of information and explanations received

Under the Companies Act 2006 we are required to report to you if, in our opinion, we have not received all the information and explanations we require for our audit. We have no exceptions to report arising from this responsibility.

#### Directors' remuneration

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of Directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

### Responsibilities for the financial statements and the audit

#### Our responsibilities and those of the Directors

As explained more fully in the Directors' Statement of Responsibilities in Relation to the Group Annual Report and Accounts set out on page 55, 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) ("ISAs (UK & Ireland)"). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the members of IGas Energy plc (the Company) as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

### What an audit of financial statements involves

We conducted our audit in accordance with ISAs (UK & Ireland). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the Group's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the Directors; and
- the overall presentation of the financial statements

We primarily focus our work in these areas by assessing the Directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report. With respect to the Strategic Report and Directors' Report, we consider whether those reports include the disclosures required by applicable legal requirements

#### **Other matter**

We have reported separately on the financial statements of the Company for the year ended 31 December 2016

#### **Richard Spilsbury**

(Senior Statutory Auditor)

for and on behalf of PricewaterhouseCoopers LLP

Chartered Accountants and Statutory Auditors

London

4 May 2017

The maintenance and integrity of the IGas Energy plc website is the responsibility of the Directors, the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website

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

# CONSOLIDATED INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2016

		Year ended 31 December 2016 £000	Nine months ended 31 December 2015 £000
	Notes		
Revenue	2	30,471	25,123
<b>Cost of sales:</b>			
Depletion, depreciation and amortisation		(6,323)	(7,105)
Other costs of sales		(20,857)	(14,416)
		(27,180)	(21,521)
<b>Gross profit</b>		<b>3,291</b>	<b>3,602</b>
Administrative expenses		(11,406)	(5,973)
Restructuring costs	4	(557)	(2,117)
Impairment of goodwill	9	–	(39,227)
Exploration and evaluation assets written off	10	(4,485)	(12,900)
Impairment of property, plant and equipment	11	–	(17,720)
Profit on disposal of oil and gas assets	3	–	3,998
(Loss)/gain on oil price derivatives	3	(3,496)	8,618
Other income	5	660	5,070
<b>Operating loss</b>	3	<b>(15,993)</b>	<b>(56,649)</b>
Finance income	6	277	1,302
Finance costs	6	(29,057)	(9,127)
<b>Loss from continuing activities before tax</b>		<b>(44,773)</b>	<b>(64,474)</b>
Income tax credit	7	13,006	17,257
<b>Loss after tax from continuing operations attributable to equity shareholders of the Group</b>		<b>(31,767)</b>	<b>(47,217)</b>
(Loss)/gain after tax from discontinued operations	16	(1,144)	2,395
<b>Net loss attributable to equity shareholders of the Group</b>		<b>(32,911)</b>	<b>(44,822)</b>
Loss attributable to equity shareholders:			
Basic loss per share (pence/share)	8	(10.99p)	(15.15p)
Diluted loss per share (pence/share)	8	(10.99p)	(15.15p)

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2016

	Year ended 31 December 2016 £000	Nine months ended 31 December 2015 £000
<b>Loss for the year/period</b>	<b>(32,911)</b>	<b>(44,822)</b>
Other comprehensive income/(loss) for the year/period		
Currency translation adjustments recycled to the income statement	105	1,229
Currency translation adjustments	(1,231)	(5,058)
<b>Total comprehensive loss for the year/period</b>	<b>(34,037)</b>	<b>(48,651)</b>

The notes on pages 62 to 93 form an integral part of these financial statements.

# CONSOLIDATED BALANCE SHEET AS AT 31 DECEMBER 2016

	Notes	31 December 2016 £000	31 December 2015 £000
<b>ASSETS</b>			
<b>Non-current assets</b>			
Intangible exploration and evaluation assets	10	112,448	113,394
Property, plant and equipment	11	97,709	82,911
Goodwill	9	4,801	4,801
		<b>214,958</b>	<b>201,106</b>
<b>Current assets</b>			
Inventories	13	1,270	1,208
Trade and other receivables	14	7,015	14,809
Cash and cash equivalents	15	24,946	28,614
Other financial assets – restricted cash	15	–	1,007
Derivative financial instruments	24	–	6,654
Assets classified as held for sale	16	–	1,837
		<b>33,231</b>	<b>54,129</b>
<b>Total assets</b>		<b>248,189</b>	<b>255,235</b>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Trade and other payables	17	(8,170)	(9,218)
Current tax liabilities		(1,318)	(2,004)
Borrowings	18	(6,084)	(4,819)
Other liabilities	19	(11)	(147)
Derivative financial instruments	24	(876)	–
Liabilities associated with assets classified as held for sale	16	–	(1,837)
		<b>(16,459)</b>	<b>(18,025)</b>
<b>Non-current liabilities</b>			
Borrowings	18	(118,495)	(98,060)
Deferred tax liabilities	7	(1,779)	(14,636)
Provisions	20	(40,924)	(25,323)
Contingent deferred consideration	21	–	(420)
		<b>(161,198)</b>	<b>(138,439)</b>
<b>Total liabilities</b>		<b>(177,657)</b>	<b>(156,464)</b>
<b>Net assets</b>		<b>70,532</b>	<b>98,771</b>
<b>EQUITY</b>			
<b>Capital and reserves</b>			
Called up share capital	25	30,282	29,882
Share premium account	26	32	121,623
Capital redemption reserve	26	–	64,882
Foreign currency translation reserve		(7,990)	(6,864)
Other reserves	27	28,757	23,544
Surplus/(accumulated deficit)		19,451	(134,296)
<b>Total equity</b>		<b>70,532</b>	<b>98,771</b>

These financial statements were approved and authorised for issue by the Board on 4 May 2017 and are signed on its behalf by:

  
**Stephen Bowler**  
Chief Executive Officer

  
**Julian Tedder**  
Chief Financial Officer

The notes on pages 62 to 92 form an integral part of these financial statements.

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# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2016

	Called up share capital (note 25) £000	Share premium account (note 26) £000	Capital redemption reserve (note 26) £000	Foreign currency translation reserve <sup>1</sup> £000	Other reserves <sup>2,3</sup> £000	Accumulated surplus/ (deficit) losses <sup>4</sup> £000	Total equity £000
<b>At 1 April 2015</b>	26,446	11,463	41,239	(3,035)	1,264	(36,757)	146,620
Adjustment <sup>5,6</sup>	3,246	3,892	23,643	-	22,222	(53,003)	-
Adjusted balance at 1 April 2015	29,692	15,355	64,882	(3,035)	23,486	(89,760)	146,620
Loss for the period	-	-	-	-	-	(44,822)	(44,822)
Employee share plans (note 27)	-	-	-	-	1,344	-	1,344
Forfeiture of LTIPs under the employee share plan (note 27)	-	-	-	-	(1,000)	-	(1,000)
Lapse of LTIPs under the employee share plan (note 27)	-	-	-	-	(286)	286	-
Issue of shares (note 25)	190	268	-	-	-	-	458
Currency translation adjustments	-	-	-	(3,829)	-	-	(3,829)
<b>Adjusted balance at 31 December 2015 and 1 January 2016</b>	<b>29,882</b>	<b>15,623</b>	<b>64,882</b>	<b>(6,864)</b>	<b>23,544</b>	<b>(134,296)</b>	<b>98,771</b>
Loss for the period	-	-	-	-	-	(32,911)	(32,911)
Capital reduction	-	(121,776)	(64,882)	-	-	186,658	-
Employee share plans (note 27)	-	-	-	-	5,344	-	5,344
Forfeiture of LTIPs under the employee share plan (note 27)	-	-	-	-	(131)	-	(131)
Issue of shares (note 25)	400	185	-	-	-	-	585
Currency translation adjustments	-	-	-	(1,126)	-	-	(1,126)
<b>At 31 December 2016</b>	<b>30,282</b>	<b>32</b>	<b>-</b>	<b>(7,990)</b>	<b>28,757</b>	<b>19,451</b>	<b>70,532</b>

<sup>1</sup> The foreign currency translation reserve represents exchange gains and losses arising on translation of foreign currency subsidiaries' net assets and results and on translation of those subsidiaries' intercompany balances which form part of the net investment of the Group.

<sup>2,3</sup> Other reserves include: 1) EIP/MRP/LTIP/MCP/EDAP reserves which represent the cost of share options issued under the long term incentive plans; 2) share investment plan reserve which represents the cost of the partnership and matching shares; 3) treasury shares reserve which represents the cost of shares in IGas Energy plc purchased in the market and held by the IGas Employee Benefit Trust to satisfy awards held under the Group incentive plans; and 4) capital contribution reserve which arose following the acquisition of IGas Exploration UK Limited.

<sup>5,6</sup> Reclassification of the Group's share capital, share premium, capital redemption reserve and other reserves to align with those of the parent company. This adjusts the classification adopted on the reverse acquisition in December 2015/ (see note 27).

The notes on pages 62 to 93 form an integral part of these financial statements.

# CONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2016

	Notes	Year ended 31 December 2016 £000	Nine months ended 31 December 2015 £000
<b>Cash flows from operating activities:</b>			
Loss before tax for the year/period		(44,773)	(64,474)
Adjustment for non-operating gain relating to farm-out		-	(3,998)
Adjustment for gain relating to deferred consideration	5	(420)	(4,947)
Depletion, depreciation and amortisation	11	6,474	7,233
Decommissioning costs incurred	20	(418)	(6)
Share based payment charge	27	3,499	600
Impairment of goodwill	9	-	39,227
Exploration and evaluation assets written off	10	4,485	12,900
Impairment of property, plant and equipment	11	-	17,720
Unrealised loss/(gain) on oil price derivatives	3	11,969	(5,281)
Finance income	6	(277)	(1,302)
Finance costs	6	29,057	9,127
Other non-cash adjustments		(13)	(376)
Operating cash flow before working capital movements		9,583	6,473
Decrease/(increase) in trade and other receivables and other financial assets		3,366	(5,568)
Increase in trade and other payables, net of accruals related to investing activities		698	130
Increase in inventories		(176)	(248)
Cash generated from continuing operating activities		13,471	787
Cash (used in)/generated from discontinued operating activities		(489)	175
Taxation paid – continuing operating activities		(559)	-
<b>Net cash generated from operating activities</b>		<b>12,423</b>	<b>962</b>
<b>Cash flows from investing activities:</b>			
Purchase of intangible exploration and evaluation assets		(2,304)	(2,963)
Purchase of property, plant and equipment		(6,509)	(6,396)
Disposal of subsidiary		(171)	-
Disposal of exploration and evaluation assets		-	30,000
Disposal of oil and gas assets		22	181
Interest received		34	107
Cash (used in)/generated from continuing investing activities		(8,928)	20,929
Cash used in discontinued investing activities		(177)	(52)
<b>Net cash (used in)/generated from investing activities</b>		<b>(9,105)</b>	<b>20,877</b>
<b>Cash flows from financing activities:</b>			
Cash proceeds from issue of ordinary share capital	25	136	125
Interest paid		(11,570)	(1,921)
Bond renegotiation costs		-	(940)
Repayment of borrowings		(4,916)	(6,147)
Cash proceeds from sale of bonds		4,914	-
Cash used in continuing financing activities		(11,436)	(12,887)
<b>Net cash used in financing activities</b>		<b>(11,436)</b>	<b>(12,887)</b>
<b>Net (decrease)/increase in cash and cash equivalents in the year/period</b>		<b>(8,118)</b>	<b>8,952</b>
Net foreign exchange difference		4,450	637
Cash and cash equivalents at the beginning of the year/period		28,614	19,025
<b>Cash and cash equivalents at the end of the year/period</b>	15	<b>24,946</b>	<b>28,614</b>

The notes on pages 62 to 93 form an integral part of these financial statements

STRATEGIC REPORT

CORPORATE GOVERNANCE

FINANCIAL STATEMENTS

# CONSOLIDATED FINANCIAL STATEMENTS – NOTES

## AS AT 31 DECEMBER 2016

### 1 Accounting policies

#### (a) Basis of preparation of financial statements

The Consolidated financial statements of IGas Energy plc (the "Company") and subsidiaries (the "Group") have been prepared in accordance with International Financial Reporting Standards, adopted for use by the European Union ("IFRSs") as they apply to the Group for the year ended 31 December 2016 and with the Companies Act 2006. The accounting periods are not comparable as the prior nine month period represents a short period of account to align the year end with the year end of major operating partners. The accounts were approved by the Board and authorised for issue on 4 May 2017. IGas Energy plc is a public limited company incorporated and registered in England and Wales and listed on the Alternative Investment Market ("AIM").

The Group Financial Statements are presented in UK pounds sterling and all values are rounded to the nearest thousand ("£000") except when otherwise indicated.

During the year, the Group adopted the following new and amended IFRSs which were applicable to the Group's activities as of 1 January 2016

IFRS 11	Accounting for Acquisitions of Interests in Joint Operations – Amendments to IFRS 11. The Group has concluded that this amendment has no impact on the Financial Statements as Group has not acquired any interests in Joint Operations.	1 January 2016*
IAS 1	Disclosure initiative – Amendments to IAS 1. The Group has concluded that this amendment has no impact on the Financial Statements as no changes are made to the current presentation of notes or specific line items in the Income Statement and the Balance Sheet.	1 January 2016*
IAS 16 and IAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation – Amendments to IAS 16 and IAS 38. The Group has concluded that this amendment has no impact on the Financial Statements as Group does not use revenue-based amortisation methods for property, plant and equipment.	1 January 2016*

#### New and amended standards and Interpretations

Certain new standards, interpretations and amendments to existing standards have been published and are mandatory only for the Group's accounting periods beginning on or after 1 January 2017 or later periods and which the Group has not adopted early. Those that may be applicable to the Group in future are as follows:

IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture – Amendments to IFRS 10 and IAS 28.	Postponed*
IAS 7	Disclosure initiative – Amendments to IAS 7.	1 January 2017*
IAS 12	Recognition of Deferred Tax Assets for Unrealised Losses – Amendments to IAS 12.	1 January 2017*
IFRS 15	Revenue from Contracts with Customers.	1 January 2018*
IFRS 9	Financial Instruments.	1 January 2018*
IFRS 2	Classification and Measurement of Share-based Payment Transactions – Amendment to IFRS 2.	1 January 2018*
IFRS 16	Leases	1 January 2019*

\* The effective dates stated above are those given in the original IAS/IFRIC standards and interpretations. As the Group prepares its financial statements in accordance with IFRS as adopted by the European Union ("EU"), the application of new standards and interpretations will be subject to them having been endorsed for use in the EU via the EU endorsement mechanism. In the majority of cases this will result in an effective date consistent with that given in the original standard or interpretation but the need for endorsement restricts the Group's discretion to early adopt standards.

The Group is currently assessing the impact that these amendments will have on its financial position. The Group does not anticipate adopting these standards and interpretations ahead of their effective dates.

**1 Accounting policies continued****(b) Going concern**

The strength of the Group's and Company's balance sheet has been improved significantly by the capital restructuring as disclosed in note 29 to the financial statements. Based on their strategic plans and working capital forecasts, the Directors have a reasonable expectation that the Group and the Company have adequate resources to continue in existence for the foreseeable future. Thus they continue to adopt the going concern basis in the preparation of the financial statements.

**(c) Basis of consolidation**

The consolidated financial statements present the results of IGas Energy plc and its subsidiaries as if they formed a single entity. The financial statements of subsidiaries used in the preparation of consolidated financial statements are based on consistent accounting policies to the parent. All intercompany transactions and balances between Group companies, including unrealised profits arising from them, are eliminated in full. Where shares are issued to an Employee Benefit Trust, and the Company is the sponsoring entity, it is treated as an extension of the entity.

At 31 December 2016, the Group comprised the Company and entities controlled by IGas Energy plc (its subsidiaries). There have been no new subsidiaries acquired during the period.

**(d) Business combinations**

Business combinations are accounted for using the acquisition method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed and equity instruments issued by the Group in exchange for control of the acquiree. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 are recognised at their fair value at the acquisition date. Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in the income statement. Acquisition costs are expensed and shown as a separate line in the income statement.

**(e) Assets held for sale**

Non-current assets (or disposal groups) are classified as held-for-sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use and a sale is considered highly probable within a year from the classification date. They are measured at the lower of their carrying amount and fair value less costs of disposal, except for assets such as deferred tax assets and financial assets, which are specifically exempt from this requirement.

An impairment loss is recognised for any initial or subsequent write-down of the asset (or disposal group) to fair value less costs of disposal. A gain is recognised for any subsequent increases in fair value less costs of disposal of an asset (or disposal group), but not in excess of any cumulative impairment loss previously recognised. A gain or loss not previously recognised by the date of the sale of the non-current asset (or disposal group) is recognised at the date of derecognition.



# CONSOLIDATED FINANCIAL STATEMENTS – NOTES

## AS AT 31 DECEMBER 2016 CONTINUED

### 1 Accounting policies continued

#### (f) Joint arrangements

Certain of the Group's licence interests are held jointly with others under arrangements whereby unincorporated and jointly controlled ventures are used to explore, evaluate and ultimately develop and produce from its oil and gas interests. Accordingly, the Group accounts for its share of assets, liabilities, income and expenditure of these joint operations, classified in the appropriate balance sheet and income statement headings, except where its share of such amounts remain the responsibility of another party in accordance with the terms of carried interests as described at (j) below.

Where the Group enters into a farm-in agreement involving a licence in the exploration and evaluation phase, the Group records all costs that it incurs under the terms of the joint operating agreement as amended by the farm-in agreement as they are incurred.

Where the Group enters into a farm-out agreement involving a licence in the exploration and evaluation phase, the Group does not record any expenditure made by the farmee on its account. It also does not immediately recognise any gain or loss on its exploration and evaluation farm-out arrangements, but redesignates any costs previously capitalised in relation to the whole interest as relating to the partial interest retained. Any cash consideration received directly from the farmee is credited against costs previously capitalised in relation to the whole interest with any excess accounted for by the farmor as a gain on disposal.

When the Group, acting as an operator or manager of a joint arrangement, receives reimbursement of direct costs recharged to the joint arrangement, such recharges represent reimbursements of costs that the operator incurred as an agent for the joint arrangement and therefore have no effect on profit or loss.

#### (g) Significant accounting judgements and estimates

The preparation of the Group's consolidated financial statements in conformity with IFRS requires management to make judgements and estimates that affect the reported amounts of assets and liabilities and the disclosure of contingent liabilities at the date of the consolidated financial statements, and the reported amounts of revenues and expenses during the reporting period. 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. However, actual outcomes can differ from these estimates.

In particular, the Group has identified the following areas where significant judgements and estimates are required, and where if actual results were to differ, this could materially affect the financial position or financial results reported in a future period. Further information on each of these and how they impact the various accounting policies are described in the relevant notes to the financial statements.

#### Recoverable value of intangible exploration and evaluation assets

The Group has capitalised intangible exploration and evaluation assets in accordance with IFRS 6, which are evaluated for impairment as described at (j) below. Any impairment review, where required, involves estimates and assumptions related to matters (when appropriate) such as recoverable reserves, production profiles, review of forward oil, gas and electricity prices, development, operating and off-take costs, nature of and access agreements and planning permissions, application of taxes and other matters. Where the final outcome or revised estimates related to such matters differ from the estimates used in any earlier impairment reviews, the results of such differences, to the extent that they actually affect any impairment provisions, are accounted for when such revisions are made. Details of the Group's intangible exploration and evaluation assets are disclosed in note 10 to the financial statements.

#### Recoverable value of property, plant and equipment

Management reviews the Group's property, plant and equipment at least annually for impairment indicators. The determination of recoverable amounts in any resulting impairment test requires judgement around key assumptions. Key assumptions in the impairment models include those related to prices that are based on forward curves and long term corporate assumptions thereafter, discount rates that are risked to reflect conditions specific to individual assets, future costs, both capital and operating that are based on management's estimates having regard to past experience and the known characteristics of the individual assets, reserves and future production, discussed further below. Details of the Group's property, plant, and equipment are disclosed in note 11 to the financial statements.

#### Recoverable value of goodwill

The Group assesses goodwill each reporting period to determine whether there is any impairment. The assessment requires the use of estimates and assumptions such as long term oil prices, discount rates, reserves, production profiles and capital expenditure. 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 value of goodwill. Details of the Group's goodwill are disclosed in note 9 to the financial statements.

**1 Accounting policies continued****(g) Significant accounting judgements and estimates continued****Proved and probable reserves and contingent resources**

The volume of proved and probable oil and gas reserves is an estimate that affects the unit of production depreciation of producing oil and gas property, plant and equipment as well as being a significant estimate affecting decommissioning provisions, impairment calculations and the valuation of oil and gas properties in business combinations. Contingent resources affect the valuation of exploration and exploration assets acquired in business combinations and the estimation of the recoverable value of those assets in impairment tests. Proved and probable reserves and contingent resources are estimated using standard recognised evaluation techniques. Estimates are reviewed at least annually and are regularly estimated by independent consultants. Future development costs are estimated taking into account the level of development required to produce the reserves by reference to operators, where applicable, and internal engineers.

**Deferred tax asset recognition**

Deferred tax assets are recognised for unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and the level of future taxable profits together with future tax planning strategies. Estimates of future taxable profits are based on cash flows expected to be generated from internal estimates of projected production and costs. Details of the Group's deferred tax assets, including those not recognised due to uncertainty regarding the future utilisation, are disclosed in note 7 to the financial statements.

**Decommissioning costs**

The estimated cost of decommissioning at the end of the producing lives of fields is reviewed periodically and is based on forecast price levels and technology at the balance sheet date. Provision is made for the estimated cost at the balance sheet date, using a discounted cash flow methodology and a risk free rate of return. Details of the Group's decommissioning provisions are disclosed in note 20 to the financial statements.

**Functional currency**

The determination of functional currency often requires significant judgement where the primary economic environment in which a company operates may not be clear. The parent entity reconsiders the functional currency of its entities if there is a change in the underlying transactions, events and conditions which determines the primary economic environment.

**(h) Exceptional items**

Exceptional items are material items of income or expenditure which, in the opinion of the Directors, due to their nature and infrequency require separate identification on the face of the income statement to allow a better understanding of the financial performance in the year.

**(i) Revenue**

Revenue comprises the invoiced value of goods and services supplied by the Group, net of value added tax and trade discounts. Revenue is recognised in the case of oil, gas and electricity sales when goods are delivered and title has passed to the customer. This generally occurs when the product is physically delivered to the customer's premises or transferred into a vessel, pipe or other delivery mechanism.

Revenue from the production of oil from fields 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. Where oil produced by third parties is processed and delivered to a refinery by the Group, the measurement of the revenue depends upon whether physical title to the oil passes to the Group or whether the Group simply acts as an agent for the producer.

**(j) Non-current assets****Goodwill**

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognised over the fair value of the identifiable net assets acquired and liabilities assumed in a business combination.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses.

Goodwill is tested for impairment at least annually and when circumstances indicate that the carrying value may be impaired.

Impairment is determined for goodwill by assessing the recoverable amount of each cash generating unit ("CGU") or group of CGUs to which the goodwill relates. Where the recoverable amount of the CGU is less than its carrying amount, an impairment loss is recognised. Impairment losses relating to goodwill cannot be reversed in future periods.

# CONSOLIDATED FINANCIAL STATEMENTS – NOTES

## AS AT 31 DECEMBER 2016 CONTINUED

### 1 Accounting policies continued

#### (j) Non-current assets continued

##### Intangible exploration and evaluation assets

The Group accounts for exploration and evaluation costs in accordance with the requirements of IFRS 6 “Exploration for and Evaluation of Mineral Resources” as follows:

- Any costs incurred prior to obtaining the legal rights to explore an area are expensed immediately to the Income Statement. Expenditures related to development and production activities are not recognised as exploration and evaluation assets.
- Expenditures recognised as exploration and evaluation assets comprise those related to acquisition of rights to explore, topographical, geological, geochemical and geophysical studies, exploratory drilling (including coring and sampling), activities in relation to evaluating the technical feasibility and commercial viability of extracting hydrocarbons (including appraisal drilling and production tests) and any land rights acquired for the sole purpose of effecting these activities. These costs include employee costs, directly attributable overheads, materials and consumables, equipment costs and payments made to contractors.
- Tangible assets acquired for use in exploration and evaluation activities are classified as property, plant and equipment. However, to the extent that such tangible assets are consumed in developing an intangible exploration and evaluation asset, the amount reflecting that consumption is recorded as part of the exploration and evaluation asset.
- Expenditures recognised as exploration and evaluation assets are initially accumulated and capitalised by reference to appropriate geographic areas. Expenditure recognised as exploration and evaluation assets are transferred to property, plant and equipment and classified as oil and gas assets when technical feasibility and commercial viability of extracting hydrocarbons is demonstrable.
- Exploration and evaluation assets are assessed for impairment (on the basis described below), and any impairment loss recognised, before reclassification.

##### Impairment testing of exploration and evaluation assets

Expenditures recognised as exploration and evaluation assets are tested for impairment whenever facts and circumstances suggest that they may be impaired, which includes when a licence is approaching the end of its term and is not expected to be renewed, there are no substantive plans for continued exploration or evaluation of an area, the Group decides to abandon an area, or whilst development is likely to proceed in an area there are indications that the exploration and evaluation asset costs are unlikely to be recovered in full either by development or through sale.

##### Property, plant and equipment – interests in oil and gas properties

Property, plant and equipment – oil and gas properties are accounted for as follows:

- Oil and gas properties and other property, plant and equipment are stated at cost, less accumulated depreciation and accumulated impairment losses.
- The cost of an asset comprises its purchase price or construction cost, any costs directly attributable to bringing the asset into operation 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 cost of oil and gas assets also includes an amount equal to the decommissioning cost estimate. The capitalised value of any associated finance leases are also included within property, plant and equipment.
- Expenditure relating to interests in oil and gas properties includes both expenditure which is depleted on a unit of production basis, commencing at the start of commercial production and expenditure which is depreciated on a straight line basis over the relevant asset's estimated useful life. Where expenditure is depreciated on a unit of production basis, the depletion charge is calculated according to the proportion that production bears to the recoverable reserves for each property.
- The Group's interests in oil and gas properties are assessed for indications of impairment including events or changes in circumstances which indicate that the carrying value of an asset may not be recoverable, when impairment is computed on the basis as set out below. Any impairment in value is charged to the Income Statement.
- Net proceeds from any disposal of development/producing assets are compared to the previously capitalised costs for the relevant asset or group of assets. A gain or loss on disposal of a development/producing asset is recognised in the Income Statement to the extent that the net proceeds exceed or are less than the appropriate portion of the net capitalised costs of the asset or group of assets.

**1 Accounting policies continued****(j) Non-current assets continued****Impairment**

Impairment tests, when required as described above, are carried out on the following basis:

- By comparing the sum of any amounts carried in the books as compared to the recoverable amount
- The recoverable amount is the higher of an asset's fair value less costs to sell and its value in use. The Group generally assesses the value in use using the estimated future cash flows which are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU
- Where there has been a charge for impairment in an earlier period that charge will be reversed in a later period where there has been a change in circumstances to the extent that the recoverable amount is higher than the net book value at the time. In reversing impairment losses, the carrying amount of the asset will be increased to the lower of its original carrying value and the carrying value that would have been determined (net of depletion) had no impairment loss been recognised in prior periods

**Decommissioning**

Where a liability for the removal of production facilities or site restoration exists, a provision for decommissioning is recognised. The amount recognised is discounted to its present value and is reflected in the Group's non-current liabilities. A corresponding asset is included in the appropriate category of the Group's non-current assets (intangible exploration and evaluation assets and property, plant and equipment), depending on the accounting treatment adopted for the underlying operations/asset leading to the decommissioning provision. The asset is assessed for impairment and depleted in accordance with the Group's policies as set out above.

**Carried interests**

Where the Group has entered into carried interest agreements in exploration and evaluation projects and the Group's interest is being carried by a third party, no amounts are recorded in the financial statements where expenditure incurred under such agreements is not refundable. Where expenditure is refundable, out of what would but for the carry agreements have been the Group's share of production, the Group records amounts as non-current assets, with a corresponding offset in current liabilities or non-current liabilities, as appropriate, but only once it is apparent that it is more likely than not that future production will be adequate to result in a refund under the terms of any carry agreement, the Group records refunds only to the extent that they are expected to be repayable.

**Other property, plant and equipment**

Other property, plant and equipment is stated at cost to the Group less accumulated depreciation. Depreciation is provided on such assets, with the exception of freehold land, at rates calculated to write off the cost of fixed assets, less their estimated residual values, over their estimated useful lives at the following rates, with any impairment being accounted for as additional depreciation:

Equipment used for exploration and evaluation	– between six and twelve years on a straight line basis
Freehold land	– indefinite useful life
Buildings/leasehold property improvements	– over five to ten years on a straight line basis/over the period of the lease
Fixtures, fittings and equipment	– between three and twenty years on a straight line basis
Motor vehicles	– over four years on a straight line basis

The Group does not capitalise amounts considered to be immaterial.

**(k) Financial instruments****Cash and cash equivalents**

Cash and cash equivalents comprise cash on hand and cash held on current account or on short-term deposits at variable interest rates with original maturity periods of up to three months. Any interest earned is accrued monthly and classified as interest income within finance income.

**Other financial assets – restricted cash**

Restricted cash relates to bond guarantees issued to governments for the performance under the terms of work programmes. Funds are only classified as cash and cash equivalents when monies are transferred to and under the control of the Group.

**Trade and other receivables**

Trade receivables are initially recognised at fair value when related amounts are invoiced, then carried at this amount less any allowances for doubtful debts or provision made for impairment of these receivables.

**Trade and other payables**

These financial liabilities are all non-interest bearing and are initially recognised at the fair value of the consideration payable.

# CONSOLIDATED FINANCIAL STATEMENTS – NOTES

## AS AT 31 DECEMBER 2016 CONTINUED

### 1 Accounting policies continued

#### (k) Financial instruments continued

##### Derivative financial instruments and hedge accounting

The Group enters into derivatives to manage its exposure to variability in the price realised on a proportion of its crude oil production. All derivative financial instruments are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value at each period end. Apart from those derivatives designated as qualifying cash flow hedging instruments, all changes in fair value are recorded as financial income or expense in the year in which they arise, otherwise they are recognised in other comprehensive income.

Fair value is the amount for which a financial asset, liability or instrument could be exchanged between knowledgeable and willing parties in an arm's length transaction. It is determined by reference to quoted market prices adjusted for estimated transaction costs that would be incurred in an actual transaction, or by the use of established estimation techniques such as option pricing models and estimated discounted values of cash flows. The fair value of derivative financial instruments has been calculated on a discounted cash flow basis by reference to forward market prices and risk free returns adjusted in the case of derivative financial liabilities by an appropriate credit spread.

Derivatives embedded in host contracts, such as warrants attached to loans, are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held for trading or designated at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in the income statement.

##### Warrants

When warrants do not qualify as equity instruments under IAS 39 due to the variable number of shares that would be issued in each case they are accounted for as financial liabilities. The warrants are initially recognised at fair value on the date they are issued and are subsequently re-measured to fair value at each period end. All changes in fair value are recognised in the income statement.

##### Impairment of financial assets

In relation to financial assets, a provision for impairment is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor) that the Group will not be able to collect all of the amounts due under the original terms of the invoice. The carrying amount of receivables is reduced through use of an allowance account. Impaired debts are derecognised when they are assessed as uncollectible.

#### (l) Borrowings

Borrowings are measured initially at fair value. After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the Effective Interest Rate ("EIR") method. Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the EIR amortisation process. When management estimates of the amounts or timings of cash flows are revised, borrowings are re-measured using the revised cash flow estimates under the original effective interest rate with any consequent adjustment being recognised in the income statement.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included in finance costs in the income statement.

##### Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of these assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in the income statement in the periods in which they are incurred.

#### (m) Leases

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement at inception date including whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset.

##### Operating leases

Rentals are charged to the income statement on a straight line basis over the period of the lease.

**1 Accounting policies continued****(m) Leases continued****Finance leases**

Assets held under finance leases are included in tangible fixed assets at their capital value and depreciated over their useful lives. Capital value is defined as the amount equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments, each determined at the inception of the lease. Lease payments consist of capital and finance charge elements; the finance charge element is charged to the income statement.

**(n) Inventories**

Inventories, consisting of crude oil, drilling materials and maintenance materials, are stated at the lower of cost and net realisable value. Costs comprise all costs of purchase, cost of conversion and other costs incurred in bringing the inventories to their present location and condition. Weighted average cost is used to determine the cost of ordinary inter-changeable items.

**(o) Taxation**

The tax expense represents the sum of current tax and deferred tax.

Current income tax assets and liabilities are measured at the amount expected to be recovered or paid to the tax authorities. Taxable profit/(loss) differs from the profit/(loss) before taxation as reported in the Income Statement 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. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised in respect of all temporary differences that have originated but not reversed at the balance sheet date except when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss. Temporary differences arise from differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax liabilities are not discounted. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered.

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period when the asset is realised or the liability is settled, based on the tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax relating to items recognised outside profit or loss is recognised outside profit or loss. Deferred tax items are recognised in correlation to the underlying transaction either in other comprehensive income or directly in equity.

**(p) Share based payments**

Where share options or warrants are awarded to employees including Directors, the fair value of the options or warrants at the date of the grant is recorded in equity over the vesting period. Non-market vesting conditions, but only those related to service and performance, are taken into account by adjusting the number of equity instruments expected to vest at each balance sheet date so that, ultimately, the cumulative amount recognised over the vesting period is based on the number of options that eventually vest. All other vesting conditions, including market vesting conditions, are factored into the fair value of the options or warrants granted. As long as all other vesting conditions are satisfied, the amount recorded is computed irrespective of whether the market vesting conditions are satisfied. The cumulative amount recognised is not adjusted for the failure to achieve a market vesting condition, although equity no longer required for options or warrants may be transferred to another equity reserve.

Where the terms and conditions of options or warrants are modified before they vest, the increase in the fair value of the options, measured by the change from immediately before to after the modification, is also recorded in equity over the remaining vesting period.

When an equity-settled award is cancelled, it is treated as if it vested on the date of cancellation, and any expense not yet recognised on the award is recognised immediately.

Where an equity settled award is identified as a replacement, it will be treated as a modification to the original plan where the incremental fair value of the replacement award is expensed over the vesting period of the replacement award. The fair value of the original award on its grant date continues to be recognised over its original vesting period.

Where equity instruments are granted to persons other than employees, the amount recognised in equity is the fair value of goods and services received.

# CONSOLIDATED FINANCIAL STATEMENTS – NOTES

## AS AT 31 DECEMBER 2016 CONTINUED

### 1 Accounting policies continued

#### (p) Share based payments continued

Charges corresponding to the amounts recognised in equity are accounted for as a cost against profit and loss unless the services rendered qualify for capitalisation as a non-current asset. Costs may be capitalised within non-current assets in the event of services being rendered in connection with an acquisition of intangible exploration and evaluation assets or property, plant and equipment.

Where shares are issued to an Employee Benefit Trust, and the Company is the sponsoring entity, the value of such shares at issue will be recorded in share capital and share premium account in the ordinary way, but will not affect shareholders' funds since this same value will be shown as a deduction from shareholders' funds by way of a separate component of equity.

#### (q) Post-retirement benefits

A subsidiary within the Group operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the Group in an independently administered fund. The amount charged to the Income Statement represents the contributions payable to the scheme in respect of the accounting period.

#### (r) Equity

Equity instruments issued by the Company are usually recorded at the proceeds received, net of direct issue costs, and allocated between called up share capital and share premium accounts as appropriate.

#### (s) Foreign currency

The consolidated financial statements are presented in UK pound sterling, the functional currency of the Company.

Transactions denominated in currencies other than functional currency are translated at the exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are re-translated at the rate of exchange ruling at the balance sheet date. All differences that arise are recorded in the income statement.

For the purposes of consolidation, the income statement items of those entities for which the UK pound sterling is not the functional currency are translated into UK pound sterling at the average rates of exchange during the period. The related balance sheets are translated at the rates ruling at the balance sheet date. Exchange differences arising on translation of the opening net assets and results of such operations are reported in other comprehensive income and accumulated in equity. The exchange differences arising on intercompany balances that form part of an entity's net investment in a foreign operation, are recognised in other comprehensive income and accumulated in foreign currency translation reserve until the disposal of the foreign operation.

On disposal of entities with a different functional currency to the Company's functional currency, the deferred cumulative exchange differences recognised in equity relating to that particular operation would be recognised in the income statement.

#### (t) Discontinued operations

The Group classifies non-current assets and disposal groups as held for sale if their carrying amounts will be recovered principally through a sale rather than through continuing use. Such non-current assets and disposal groups classified as held for sale are measured at the lower of the carrying amount and fair value less costs to sell. Costs to dispose are the incremental costs directly attributable to the sale, excluding the finance costs and income tax expense.

The criteria for held for sale classification is regarded as met only when the sale is highly probable and the asset or disposal group is available for immediate distribution in its present condition. Actions required to complete the sale should indicate that it is unlikely that significant changes to the sale will be made or that the sale will be withdrawn. Management must be committed to the sale being expected within one year from the date of the classification.

Property, plant and equipment and intangible assets are not depreciated or amortised once classified as held for sale.

Assets and liabilities classified as held for sale are presented separately as current items in the statement of financial position. Assets and liabilities classified as held for sale are presented separately as current items in the statement of financial position.

A disposal group qualifies as a discontinued operation if it is a component of an entity that either has been disposed of, or is classified as held for sale, and

- Represents a separate major line of business or geographical area of operations,
- Is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations, or
- Is a subsidiary acquired exclusively with a view to resale.

Discontinued operations are excluded from the results of continuing operations and are presented as a single amount as profit or loss after tax from discontinued operations in the income statement. All other notes to the financial statements include amounts for continuing operations, unless otherwise mentioned.

## 2 Revenue and segment information

IFRS 8 requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the Chief Operating Decision Maker ("CODM") to make decisions about resources to be allocated to the segments and assess their performance, and for which financial information is available. In the case of the Group, the CODM are the Chief Executive Officer and the Board of Directors and all information reported to the CODM is based on the consolidated results of the Group representing core (UK) and non-core (Rest of the World) operating segments. Therefore the Group has two operating and reportable segments as reflected in the Group's consolidated financial statements.

All revenue, which represents turnover, arises solely within the United Kingdom and relates to external parties. Revenues of approximately £16.0 million and £10.3 million were derived from the Group's two largest customers (Nine months ended 31 December 2015: £11.8 million and £10.1 million).

The majority of the Group's non-current assets are in the United Kingdom.

	UK £000	Rest of the World £000	Year ended 31 December 2016 Group £000
Oil sales to external customers	30,009	–	30,009
Electricity sales to external customers	462	–	462
	<b>30,471</b>	<b>–</b>	<b>30,471</b>
Segment operating loss	<b>(15,926)</b>	<b>(67)</b>	<b>(15,993)</b>
Interest expense (note 6)	<b>(11,930)</b>	<b>–</b>	<b>(11,930)</b>
Interest income (note 6)	<b>63</b>	<b>–</b>	<b>63</b>
Other finance costs – net (note 6)	<b>(16,913)</b>	<b>–</b>	<b>(16,913)</b>
Loss before tax and discontinued operations	<b>(44,706)</b>	<b>(67)</b>	<b>(44,773)</b>
<b>Other segment information</b>			
Capital expenditure – exploration and evaluation (note 10)	<b>3,616</b>	<b>–</b>	<b>3,616</b>
Capital expenditure – property, plant and equipment (note 11)	<b>5,964</b>	<b>–</b>	<b>5,964</b>
Depletion, depreciation and amortisation (note 11)	<b>6,494</b>	<b>–</b>	<b>6,494</b>

	UK £000	Rest of the World £000	Nine months ended 31 December 2015 Group £000
Oil sales to external customers	24,753	–	24,753
Electricity sales to external customers	370	–	370
	<b>25,123</b>	<b>–</b>	<b>25,123</b>
Segment operating loss	<b>(56,408)</b>	<b>(241)</b>	<b>(56,649)</b>
Interest expense (note 6)	<b>(8,731)</b>	<b>–</b>	<b>(8,731)</b>
Interest income (note 6)	<b>105</b>	<b>–</b>	<b>105</b>
Other finance income – net (note 6)	<b>801</b>	<b>–</b>	<b>801</b>
Loss before tax and discontinued operations	<b>(64,223)</b>	<b>(241)</b>	<b>(64,464)</b>
<b>Other segment information</b>			
Capital expenditure – exploration and evaluation (note 10)	<b>2,931</b>	<b>–</b>	<b>2,931</b>
Capital expenditure – property, plant and equipment (note 11)	<b>7,573</b>	<b>–</b>	<b>7,573</b>
Depletion, depreciation and amortisation (note 11)	<b>7,249</b>	<b>–</b>	<b>7,249</b>



# CONSOLIDATED FINANCIAL STATEMENTS – NOTES

## AS AT 31 DECEMBER 2016 CONTINUED

### 3 Operating loss

	Year ended 31 December 2016 £000	Nine months ended 31 December 2015 £000
Operating loss is stated after charging/(crediting):		
Staff costs	16,050	8,881
Depletion, depreciation and amortisation	6,474	7,234
Refinancing costs	2,969	-
Acquisition costs	-	107
Auditors' remuneration:		
Audit of the financial statements	180	425
Audit of the Company's subsidiaries	60	60
Taxation advisory services	10	-
Other non-audit services	179*	112
Profit on disposal of oil & gas assets	-	(3,998)
Operating lease charges:		
Land and buildings	2,015	1,544
Other	256	170

\* Other non-audit services include £0.08 million paid to the previous auditor for 2016 interim review.

### Profit on disposal of oil and gas assets

The profit on disposal of oil and gas assets for the period ended 31 December 2015 arose as a result of the farm-out agreement with INEOS Upstream Limited ("INEOS") which completed in May 2015. Under the agreement, INEOS acquired a 50% interest in IGas' UK Onshore PEDLs 147, 184, 189 and 190 and a 60% interest in IGas' UK Onshore PEDLs 145, 193 and EXL 273, (the "Rowland Licences") in the North West of England. In addition, INEOS acquired IGas' entire working interest in the acreage held under PEDL 133 in Scotland. In the East Midlands, INEOS also acquired a 20% interest in PEDLs 012 and 200. INEOS assumed operatorship of PEDLs 145 and 193 and EXL 273. IGas retained operatorship of all other Rowland Licences. INEOS made a cash payment to IGas of £50.0 million on completion of the deal, resulting in a gain of £4.0 million and will provide a fully funded future work programme of up to £138.0 million gross, of which IGas' share is expected to amount to approximately £56.0 million.

### Gain on oil price derivatives

	Year ended 31 December 2016 £000	Nine months ended 31 December 2015 £000
Realised gain on maturity	8,473	3,337
Unrealised (loss)/gain	(11,969)	5,281
	(3,496)	8,618

#### 4 Employee information

	Year ended 31 December 2016 £000	Nine months ended 31 December 2015 £000
Staff costs comprised:		
Wages and salaries	9,013	5,948
Social security costs	1,010	834
Other pension costs	802	736
Employee share based payment cost	5,225	1,343
	<b>16,050</b>	<b>8,861</b>
	<b>No.</b>	<b>No.</b>
Average monthly number of employees including Directors in the period/year:		
Operations, including services	116	130
Administrative	46	45
	<b>162</b>	<b>175</b>

A proportion of the Group's staff costs shown above is capitalised as additions to intangible exploration and evaluation assets and property, plant and equipment in accordance with the Group's accounting policies. In addition, a proportion is recharged to joint venture partners as part of our timewriting rate.

Details of Directors' remuneration, Directors' transactions and Directors' interests are set out in the audited section of the Directors' Remuneration Report which forms part of these financial statements.

The Group recognised £0.6 million (Nine months ended 31 December 2015: £2.1 million) of restructuring costs for the year.

#### 5 Other income

Other income includes £0.4 million (Nine months ended 31 December 2015: £4.9 million) relating to the release of contingent deferred consideration as described in note 21.

#### 6 Finance income and costs

	Year ended 31 December 2016 £000	Nine months ended 31 December 2015 £000
Finance income:		
Interest on short-term deposits	63	105
Foreign exchange gains	–	51
Other interest	78	1
Gain on Bond buyback (note 18)	–	943
Gain on fair value of warrants (note 19)	136	202
Finance income recognised in income statement	<b>277</b>	<b>1,302</b>
Finance expense:		
Loss on sale of bonds (note 18)	1,540	–
Interest on borrowings	11,930	8,731
Foreign exchange loss	14,841	–
Unwinding of discount on provisions (note 20)	746	396
Finance expense recognised in income statement	<b>29,057</b>	<b>9,127</b>

# CONSOLIDATED FINANCIAL STATEMENTS – NOTES

## AS AT 31 DECEMBER 2016 CONTINUED

### 7 Taxation

#### i) Tax charge on loss from continuing ordinary activities

	Year ended 31 December 2016 £000	Nine months ended 31 December 2015 £000
UK corporation tax		
Current tax on income for the year	–	1,253
Credit in relation to prior year	(149)	(335)
Total current tax charge	(149)	918
Deferred tax		
Current year credit relating to the origination or reversal of temporary differences	(6,009)	(16,418)
Current year credit relating to the movement due to the tax rate changes	(6,270)	–
Credit in relation to prior year	(578)	(1,757)
Total deferred tax credit	(12,857)	(18,175)
Tax credit on profit on ordinary activities	(13,006)	(17,257)

#### ii) Factors affecting the tax charge

The majority of the Group's profits are generated by "ring-fence" businesses which attract UK corporation tax and supplementary charge at a combined average rate of 40%. This has decreased from 50% following the reduction in the supplementary charge rate from 20% to 10% with effect from 1 January 2016.

A reconciliation of the UK statutory corporation tax rate applied to the Group's loss before tax to the Group's total tax credit is as follows:

	Year ended 31 December 2016 £000	Nine months ended 31 December 2015 £000
Loss from continuing ordinary activities before tax	(44,773)	(64,474)
Expected tax credit based on profit or loss from continuing ordinary activities multiplied by an average combined rate of corporation tax and supplementary charge in the UK of 40% (2015: 50%)	(17,909)	(32,237)
Deferred tax credit in respect of the prior year	(578)	(1,757)
Current tax credit related to prior year	(149)	(335)
Tax effect of expenses not allowable for tax purposes/(income not taxable)*	2,926	14,560
Tax effect of differences in amounts not allowable for supplementary charge purposes**	945	1,750
Impact of profits or losses taxed or relieved at different rates	3,093	(135)
Loss carried back	975	0
Net increase/(decrease) in unrecognised losses carried forward	3,961	897
Tax rate change	(6,270)	–
Tax credit on loss on ordinary activities	(13,006)	(17,257)

\* Expenses not allowable for tax purposes primarily comprise legal and professional costs and a write back of an estimate in subsidiary.

\*\* Amounts not allowable for supplementary charge purposes relate to net financing costs not allowed for supplementary charge offset against credit allowed which is creditable against profits subject to supplementary charge.

**7 Taxation continued****iii) Deferred tax**

The movement on the deferred tax liability in the year is shown below:

	Year ended 31 December 2016 £000	Nine months ended 31 December 2015 £000
Opening liability at beginning of year/period	(14,636)	(32,811)
Tax credit relating to prior year/period	578	1,757
Tax credit during the year/period recognised in income statement	6,009	16,418
Tax credit arising due to the changes in tax rates	6,270	-
Closing liability at end of year/period	(1,779)	(14,636)

The following is an analysis of the deferred tax liability by category of temporary difference:

	31 December 2016 £000	31 December 2015 £000
Accelerated capital allowances	(34,206)	(41,328)
Tax losses carried forward	22,522	22,699
Investment allowance unutilised	313	-
Decommissioning provision	6,348	7,075
Unrealised gains or losses on derivative contracts	2,126	(3,973)
Share based payments	1,118	891
Deferred tax liabilities	(1,779)	(14,636)

**iv) Tax losses**

Deferred tax assets have been recognised in respect of tax losses and other temporary differences where the Directors believe it is probable that these assets will be recovered. Such tax losses include £67.4 million (31 December 2015: £58.7 million) of ring-fence corporation tax losses.

The Group has further tax losses and other similar attributes carried forward of approximately £210 million (31 December 2015: £187 million) for which no deferred tax asset is recognised due to insufficient certainty regarding the availability of appropriate future taxable profits. Such losses carried forward include losses arising in Dart UK companies acquired in 2014. The unrecognised losses may affect future tax charges should certain subsidiaries in the Group generate taxable trading profits in future periods.

**8 Earnings per share ("EPS")**

Basic EPS amounts are based on the loss for the year after taxation attributable to ordinary equity holders of the parent of £32.9 million (Nine months ended 31 December 2015: £44.8 million) and the weighted average number of ordinary shares outstanding during the period of 299.5 million (31 December 2015: 295.9 million).

Diluted EPS amounts are based on the loss after taxation attributable to the ordinary equity holders of the parent and the weighted average number of shares outstanding during the period plus the weighted average number of ordinary shares that would be issued on the conversion of all the potentially dilutive ordinary shares into ordinary shares, except where these are anti-dilutive.

# CONSOLIDATED FINANCIAL STATEMENTS – NOTES

## AS AT 31 DECEMBER 2016 CONTINUED

### 8 Earnings per share (“EPS”) continued

The following reflects the income and share data used in the basic and diluted earnings per share computations

	Year ended 31 December 2016	Nine months ended 31 December 2015
Basic FPS – ordinary shares of 10p each (pence)	(10.99p)	(15.15p)
Diluted FPS – ordinary shares of 10p each (pence)	(10.99p)	(15.15p)
Loss for the year/period attributable to equity holders of the parent – £000	(32,911)	(44,822)
Weighted average number of ordinary shares in the year/period – basic FPS	299,542,623	295,947,728
Weighted average number of ordinary shares in the year/period – diluted FPS	299,542,623	295,947,728

There are 32,727,361 potentially dilutive warrants and options over the ordinary shares at 31 December 2016 (31 December 2015: 23,305,230), which are not included in the calculation of diluted earnings per share because they were anti dilutive as their conversion to ordinary shares would decrease the loss per share.

### 9 Goodwill

	31 December 2016 £000	31 December 2015 £000
Opening balance	4,801	44,028
Impairment	–	(39,227)
	4,801	4,801

Goodwill is monitored by conventional and unconventional CGUs for internal management purposes. The carrying value of goodwill relates to unconventional assets acquired as part of the Dart acquisition in 2014. Goodwill related to the conventional assets was impaired in full in the nine months ended 31 December 2015.

The Group tests goodwill for impairment annually or more frequently if there are indications that goodwill might be impaired. The Group reviewed the valuation of goodwill as at 31 December 2016 and assessed it for impairment by estimating the fair value of risked contingent resources using an estimated market valuation of resources based on a recent transaction. The fair value is a level 3 fair value measurement, as defined in note 24. No impairment was required for the year (31 December 2015: £39.2 million). Full details of the 2015 goodwill impairment are disclosed in the Group's 2015 Annual Report which is available at [www.igasplc.com](http://www.igasplc.com). There was no tax effect of the impairment of goodwill for the nine months ended 31 December 2015.

### 10 Intangible exploration and evaluation assets

	Year ended 31 December 2016 £000	Nine months ended 31 December 2015 £000
At 1 January/April	113,394	151,615
Additions	3,616	2,931
Farm-out	–	(28,252)
Changes in decommissioning*	(77)	–
Amounts written off**	(4,485)	(12,900)
<b>At 31 December</b>	<b>112,448</b>	<b>113,394</b>

\* The decommissioning asset increased in line with the decommissioning liability following a review of the estimate and assumption at 31 December 2015 (note 30).

\*\* 2016 – write off of unconventional exploration and evaluation assets of £4.5 million due to relinquishment of licences considered to be commercial. 2015 – write off of unconventional exploration and evaluation assets of £1.0 million due to relinquishment of licences considered to be commercial. Impairment of UK-conventional exploration and evaluation assets of £5.9 million.

Under the terms of the secured bond agreement, the secured bondholders have a fixed and floating charge over these assets.

The Group's exploration and evaluation assets were reviewed for indicators of impairment as at 31 December 2016. No indicators of impairment were identified. As at 31 December 2015, the impairment of UK-conventional assets was £5.9 million pre-tax (£2.9 million post-tax). Full details of the assumptions used in the 2015 review of impairment are disclosed in the Group's 2015 Annual Report which is available at [www.igasplc.com](http://www.igasplc.com).

## 11 Property, plant and equipment

	Year ended 31 December 2016			Nine months ended 31 December 2015		
	Oil and gas assets £000	Other fixed assets £000	Total £000	Oil and gas assets £000	Other fixed assets £000	Total £000
<b>Cost</b>						
At 1 January/April	147,434	3,731	151,165	144,230	4,318	148,548
Acquisitions	5,622	342	5,964	7,480	93	7,573
Disposals	(77)	(306)	(383)	(383)	(555)	(938)
Changes in decommissioning*	15,350	-	15,350	(3,893)	-	(3,893)
Write off	-	-	-	-	(118)	(118)
Foreign exchange	-	-	-	-	(7)	(7)
<b>At 31 December</b>	<b>168,329</b>	<b>3,767</b>	<b>172,096</b>	<b>147,434</b>	<b>3,731</b>	<b>151,165</b>
<b>Depreciation and impairment</b>						
At 1 January/April	66,815	1,439	68,254	42,524	1,710	44,234
Charge for the year/period	6,156	338	6,494	6,956	293	7,249
Disposals	(77)	(284)	(361)	(383)	(440)	(823)
Impairment	-	-	-	17,720	-	17,720
Write off	-	-	-	-	(118)	(118)
Foreign exchange	-	-	-	(2)	(6)	(8)
<b>At 31 December</b>	<b>72,894</b>	<b>1,493</b>	<b>74,387</b>	<b>66,815</b>	<b>1,439</b>	<b>68,254</b>
<b>NBV at 31 December</b>	<b>95,435</b>	<b>2,274</b>	<b>97,709</b>	<b>80,619</b>	<b>2,292</b>	<b>82,911</b>

\* The decommissioning asset increased in line with the decommissioning liability following a review of the estimate and assumptions at 31 December 2016 (note 20).

Under the terms of the secured bond agreement, the secured bondholders have a fixed and floating charge over these assets.

### Impairment of oil and gas properties

Due to the continuing volatility in oil and gas prices, the Group's oil and gas properties were reviewed for impairment as at 31 December 2016. CGUs for impairment purposes are the group of fields whereby technical, economic and/or contractual features create underlying interdependence in cash flows. The Group has identified the three main producing CGUs as North, South, and Scotland. The impairment assessment for the North and South was prepared on a value-in-use basis and using discounted future cash flows based on 2P reserve profiles. The impairment assessment for Scotland was prepared on a fair value less costs of disposal basis. The future cash flows were estimated using price assumption for Brent of \$55/bbl for 2017, \$60/bbl for 2018, \$65/bbl for 2019, \$70/bbl for 2020 and \$75/bbl thereafter, and a USD/GBP foreign exchange rate of \$1.25/£1.00. Cash flows were discounted using a pre-tax discount rate of 14%. No impairment was required in the year to 31 December 2016 (Nine months ended 31 December 2015: impairment charge of £17.7 million pre-tax (£8.8 million post-tax)).

### Sensitivity of changes in assumptions

As discussed above the principal assumptions are recoverable future production and resources and estimated Brent prices. Neither a 10% reduction in production, an average \$10/bbl reduction in Brent prices nor a 10% decline in the value of sterling against the US dollar would result in an impairment.

# CONSOLIDATED FINANCIAL STATEMENTS – NOTES

## AS AT 31 DECEMBER 2016 CONTINUED

### 12 Interest in joint arrangements

As at 31 December 2016, the Group has a combined carried gross work programme of up to \$230 million from its farm-in partners – INEOS Ustream Limited ("INEOS"), ENGIE E&P UK Limited ("ENGIE") and Total E&P UK Limited ("Total")

The Group's material joint operations as at 31 December 2016 are set out below

Licences	Partner	Cost interest	Operator
<b>East Midlands</b>			
PEDL169	Egcon	80%	IGas
PFDI 146	ENGIE	75%	IGas
PFDI 210	ENGIE	75%	IGas
FXL 288	ENGIE	75%	IGas
PEDL012	ENGIE, INEOS	55%	IGas
PEDL200	ENGIE, INEOS	55%	IGas
PFDI 139	TOTAL, Egdon, ECorp	32.5%	IGas
PFDL140	TOTAL, Egcon, ECorp	32.5%	IGas
PEDL273	TOTAL, Egcon	35%	IGas
PEDL316	TOTAL, Egcon	35%	IGas
PFDL305	TOTAL, Egcon	35%	IGas
<b>North West</b>			
PFDL188	ENGIE	75%	IGas
PFDL184	INEOS	50%	IGas
PEDL190	INEOS	50%	IGas
PFDI 145	INEOS	40%	IGas
PFDI 193	INEOS	40%	IGas
PEDL147	ENGIE, INEOS	25%	IGas
PFDI 189	ENGIE, INEOS	25%	IGas
FXL 273	ENGIE, INEOS	11%	INEOS
PFDL293	ENGIE, INEOS	30%	INEOS
PEDL295	ENGIE, INEOS	30%	INEOS
<b>Weald</b>			
PL211	UKOOG	90%	IGas
PFDL233	UKOOG	50%	IGas
PEDL070	Egdon, Aurora, Brigantes, Corfe, UKOOG	50%	IGas

### 13 Inventories

	31 December 2016	31 December 2015
	£000	£000
Oil stock	491	398
Drilling and maintenance materials	779	810
	<b>1,270</b>	<b>1,208</b>

**14 Trade and other receivables**

	31 December 2016 £000	31 December 2015 £000
VAT recoverable	725	391
Trade debtors	3,573	2,331
Other debtors	522	7,392
Prepayments	2,195	4,895
	<b>7,015</b>	<b>14,809</b>

Trade debtors are non-interest bearing and are generally on 30 day terms. The carrying value of the Group's trade and other receivables as stated above is considered to be a reasonable approximation of their fair value.

The ageing of the financial assets (trade debtors and certain other debtors) is as follows:

	31 December 2016 £000	31 December 2015 £000
Not yet due	3,879	5,802
<b>Amounts overdue but not impaired:</b>		
Not more than three months	36	2,096
More than three months but not more than six months	12	264
More than six months but not more than one year	—	103
	<b>3,927</b>	<b>8,265</b>

**15 Cash and cash equivalents and other financial assets**

	31 December 2016 £000	31 December 2015 £000
Cash at bank and in hand	24,946	28,614

The carrying value of the Group's cash and cash equivalents as stated above is considered to be a reasonable approximation of their fair value.

Included within cash and cash equivalents is £9.1 million (31 December 2015: £10.3 million) held in the Debt Service Retention Account ("DSRA") which, at the Company's discretion, is restricted for the buy-back or repayment of bonds only.

**Other financial assets**

	31 December 2016 £000	31 December 2015 £000
Restricted cash	—	1,007

Restricted cash relates to bank guarantees which were discharged during the year.



# CONSOLIDATED FINANCIAL STATEMENTS – NOTES

## AS AT 31 DECEMBER 2016 CONTINUED

### 16 Assets classified as held for sale and discontinued operations

The Rest of the World segment principally consists of Australian and Indonesian assets acquired as part of the Dart acquisition. The Group's intention was to divest all business and activities in these countries and it disposed of most of these assets in late 2015, recognising a gain on disposal of £1.4 million and a related tax charge of £0.1 million. During the year ended 31 December 2016, the Group sold its remaining Indonesian asset, a 49.9% holding in Sangatra West CBM Inc, to its joint venture partner, Ephindo International CBM Holdings Inc. Under the terms of the sale, IGas paid a consideration of £0.5 million, £0.2 million in cash and £0.3 million in IGas shares. The Indonesian assets were valued at *£nil* at the acquisition date and the Group recognised a loss on disposal of £0.5 million. The transaction completed on 13 May 2016.

The loss for the year before tax in respect of discontinued operations was £1.14 million (31 December 2015: a gain of £2.4 million).

### 17 Trade and other payables

	31 December 2016 £000	31 December 2015 £000
Trade creditors	2,773	3,751
Employment taxes	425	469
Other creditors and accruals	4,972	4,998
	<b>8,170</b>	<b>9,218</b>

The carrying values of each of the Group's financial liabilities included within trade and other payables are considered to be a reasonable approximation of their fair value. All creditors are payable within one month and have been outstanding for less than three months (31 December 2015: less than three months).

### 18 Borrowings

	31 December 2016			31 December 2015		
	Within 1 year £000	Greater than 1 year £000	Total £000	Within 1 year £000	Greater than 1 year £000	Total £000
Bonds – secured*	6,084	96,700	102,784	4,819	80,125	84,944
Bonds – unsecured*	–	21,795	21,795	–	17,935	17,935
Total	<b>6,084</b>	<b>118,495</b>	<b>124,579</b>	<b>4,819</b>	<b>98,060</b>	<b>102,879</b>

\* No additional transactions relating to debt were incurred during the year (31 December 2015: £0.1 million which have been reflected against the liability).

In 2013, the Company and Norsk Tillirsmann ("Bond Trustee") entered into a Bond Agreement for the Company to issue up to \$165.0 million secured bonds and up to \$30.0 million unsecured bonds (issued at 96% of par). The bonds were subsequently listed on Oslo Bors and the Alternative bond market in Oslo. During the period to 31 December 2015 the Company amended the terms of the Bond Agreement. The primary changes were in relation to the covenants and the maintenance of financial ratios including the establishment of the DSRA.

Both secured and unsecured bonds carry a coupon of 10% per annum (where interest is payable semi-annually in arrears). The secured bonds are amortised semi-annually at 2.5% of the initial loan amount. Final maturity on the secured bonds is on 22 March 2018 and on the unsecured bonds is 11 December 2018.

During the year to 31 December 2016, the Company sold a total of 8,000,000 secured bonds resulting in an aggregate loss of £1.5 million (Nine months ended 31 December 2015: repurchased 5,414,747 secured bonds resulting in a gain of £0.5 million).

No unsecured bonds were sold or repurchased during the year to 31 December 2016. During the nine months to 31 December 2015, the Company repurchased a total of 1,600,000 unsecured bonds resulting in an aggregate gain of £0.4 million.

The liability has increased compared to 31 December 2015 reflecting the impact of the decline in the value of sterling against the US dollar.

See note 29 for details of changes to the liability since the year end.

**19 Other liabilities**

	31 December 2016 £000	31 December 2015 £000
At 1 January/April	147	349
Revaluation gain	(136)	(202)
<b>As at 31 December</b>	<b>11</b>	<b>147</b>

Other liabilities relate to warrants issued pursuant to a warrant instrument dated 14 December 2011. The warrants can be exercised in three different ways and, although the cost to the Group would be the same under each exercise option, these warrants do not qualify as equity instruments under IAS 39 due to the variable number of shares that would be issued in each case. Accordingly they have been accounted for as financial liabilities.

All warrants vested on grant and accordingly the key assumptions made in arriving at the Black-Scholes valuations were: share price on date of valuation adjusted for subsequent consolidations where appropriate and the length of time for which the warrants were expected to remain exercisable. A risk free interest rate of 1.09% and an implied volatility of 35% were used in valuing the warrants at the time of grant, and an interest rate of 0.0001% and an implied volatility of 63.49% at 31 December 2016. It was also assumed that no dividends would be paid during the life of the warrants. The warrants are exercisable on 14 December 2017.

The movement in warrants during the period was as follows.

	No	Weighted average exercise price (pence)
At 1 April 2015	7,500,000	55.8
Exercised in the year	-	55.8
Outstanding and exercisable at 31 December 2015	7,500,000	55.8
<b>Outstanding and exercisable at 31 December 2016</b>	<b>7,500,000</b>	<b>55.8</b>

No warrants were exercised during the current or prior periods.

The weighted average remaining contractual life for the warrants as at 31 December 2016 is one year (31 December 2015, two years).

**20 Provisions for liabilities and charges**

	31 December 2016			31 December 2015		
	Decommissioning £000	Other £000	Total £000	Decommissioning £000	Other £000	Total £000
At the beginning of the year/period	25,284	39	25,323	28,787	39	28,826
Utilisation of provision	(418)	-	(418)	(6)	-	(6)
Unwinding of discount (note 6)	746	-	746	396	-	396
Reassessment of decommissioning provision/liabilities	15,273	-	15,273	(3,893)	-	(3,893)
At the end of the year/period	<b>40,885</b>	<b>39</b>	<b>40,924</b>	<b>25,284</b>	<b>39</b>	<b>25,323</b>

**Decommissioning provision**

Provision has been made for the discounted future cost of restoring fields to a condition acceptable to the relevant authorities. The abandonment of the fields is expected to happen at various times between 2 and 29 years from the year end (31 December 2015, 2 to 32 years). These provisions are based on the Group's internal estimate as at 31 December 2016. Assumptions based on the current economic environment have been made, which management believes are a reasonable basis upon which to estimate the future liability. The estimates are reviewed regularly to take into account any material changes to the assumptions. Actual decommissioning costs will ultimately depend upon future costs for decommissioning which will reflect market conditions and regulations at that time. Furthermore, the timing of decommissioning is uncertain and is likely to depend on when the fields cease to produce at economically viable rates. This, in turn, will depend on factors such as future oil and gas prices, which are inherently uncertain.

The risk free rate range of 0.58% to 3.80% is used in the calculation of the provision as at 31 December 2016 (31 December 2015, risk free rate range of 0.68% to 3.58%).

# CONSOLIDATED FINANCIAL STATEMENTS – NOTES

## AS AT 31 DECEMBER 2016 CONTINUED

### 21 Contingent deferred consideration

	31 December 2016 £000	31 December 2015 £000
At 1 January/1 April	420	5,367
Fair value adjustment	(420)	(4,947)
<b>As at 31 December</b>	<b>–</b>	<b>420</b>

The deferred consideration relates to an amount payable by a wholly owned subsidiary of the Group acquired as part of the Dart acquisition, to its earlier joint venture partner, in certain licences, contingent upon various exploration and development success outcomes. In assessing the fair value of the obligation, the Company considered the likelihood of reaching certain geological and commercial milestones on licences named in the agreement. In December 2015, the Group concluded that a provision of £0.4 million was required. During the year ended 31 December 2016, the Group assessed the likelihood of reaching the milestones as remote and released the remaining provision of £0.4 million.

### 22 Pension scheme

The Group operates a defined contribution pension scheme. Contributions payable by the Group for the year ended 31 December 2016 were £0.80 million (Nine months ended 31 December 2015: £0.76 million).

Contributions amounting to £0.06 million were accrued at 31 December 2016 (31 December 2015: £0.18 million) and are included in trade and other payables.

### 23 Commitments

The Group's capital commitments comprised

#### Capital commitments:

	Year ended 31 December 2016 £000	Nine months ended 31 December 2015 £000
Conventional capex	353	1,277
Unconventional capex	2,650	–
<b>Total capital commitments</b>	<b>3,003</b>	<b>1,277</b>

#### Operating lease commitments:

	Year ended 31 December 2016 £000	Nine months ended 31 December 2015 £000
Minimum lease payments under operating leases recognised in loss for the year/period	2,271	1,714
The Group had future minimum lease payments under non-cancellable operating leases as follows		
– within 1 year	1,828	777
– after 1 year but not more than 5 years	2,598	902
– after 5 years	1,254	–
<b>Total</b>	<b>5,680</b>	<b>1,679</b>

## 24 Financial instruments and risk management

### Fair values

The fair value of financial assets and liabilities and their carrying amounts, other than those with carrying amounts that are a reasonable approximation of their fair values, are as follows:

	Carrying amount		Fair value	
	31 December 2016	31 December 2015	31 December 2016	31 December 2015
	£000	£000	£000	£000
Amortised cost				
Borrowings <sup>1</sup>	124,000	102,879	81,459	60,683

The fair value of borrowings (Hierarchy, excl<sup>1</sup>) has been calculated by reference to quoted market prices for these liabilities.

### Fair value hierarchy

Assets and liabilities for which fair value is measured or disclosed in the financial statements, are categorised within the fair value hierarchy based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;
- Level 2: other valuation techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and
- Level 3: valuation techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

There are no non-recurring fair value measurements nor have there been any transfers of financial instruments between levels of the fair value hierarchy.

### Financial assets and liabilities measured at fair value

	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
<b>At 31 December 2016</b>				
Financial liabilities				
Warrants	–	11	–	11
Derivative financial instruments	–	876	–	876
<b>Total</b>	–	887	–	887
<b>At 31 December 2015</b>				
Financial assets				
Derivative financial instruments	–	6,654	–	6,654
<b>Total</b>	–	6,654	–	6,654
Financial liabilities				
Warrants	–	147	–	147
Contingent deferred consideration	–	–	420	420
<b>Total</b>	–	147	420	567

# CONSOLIDATED FINANCIAL STATEMENTS – NOTES

## AS AT 31 DECEMBER 2016 CONTINUED

### 24 Financial instruments and risk management continued

#### Fair value of derivative financial instruments

The fair values of the commodity price options were provided by counterparties with whom the trades have been entered into. These consist of Asian style put and call options to sell/buy oil. The options are valued using a Black-Scholes methodology; however, certain adjustments are made to the spot-price volatility of oil prices due to the nature of the options. These adjustments are made either through Monte Carlo simulations or through statistical formulae. The inputs to these valuations include the price of oil, its volatility, and risk free interest rates.

#### Fair value of warrants

The warrants are valued using a Black-Scholes method, which incorporates the inputs as detailed in note 19.

#### Fair value of contingent deferred consideration

Inputs that may have a significant effect on the recorded fair value have been identified as the (i) technical and commercial risk factors, (ii) change in the discount rate used to discount future cash flows and (iii) other unobservable factors, such as the time periods over which monies are expected to be paid, which are based on internal estimates.

Management regularly assesses possible alternatives for those significant unobservable inputs described above and determines their impact on the total fair value. The fair value of the deferred consideration is sensitive to a reasonable change in the time assumption and the discount rate used to discount future cash flows.

#### Derivative financial instruments

In the current period the Group has entered into certain put/call options and swaps in order to manage its exposure to commodity price risk associated with sales of oil in US dollars.

The outstanding contracts as at 31 December 2016 were as follows:

	Term	Contract amount	Contract price/crate			Fair value at 31 December 2016 £000
			Buy Put	Sell Call	Buy Call	
US dollar Asian 2-way collar	Jan 2017-Sep 2017	225k bbls oil	\$40.00/bbl	\$56.90/bbl	\$71.90/bbl	672
US dollar Asian 3-way collar	Jan 2017-Jun 2017	210k bbls oil	\$46.00/bbl	\$60.00/bbl	\$74.00/bbl	207

The above derivatives mature over the period from 1 January 2017 to 30 September 2017.

During the year to 31 December 2016 oil hedges for 600 thousand barrels matured generating a net gain of £4.0 million. In addition, a number of hedges were terminated generating a gain of £4.5 million (note 3).

The outstanding contracts as at 31 December 2015 were as follows:

The oil marketing contracts as at 31 December 2015 were as follows:						Fair value at 31 December 2015 £000
	Term	Contract amount	Contract price/crate	Contract price/crate	Contract price/crate	
			Sell Swap		Buy call	
US dollar collar	Jan-Mar 2016	90k bbls oil	\$64.25/bb		\$84.25/bb	1,735
US dollar collar	Jan-Mar 2016	45k bbls oil	\$65.15/bb		\$85.15/bb	876
US dollar collar	Jan-Mar 2016	30k bbls oil	\$64.90/bb		\$84.90/bb	579
US dollar collar	Apr-Jun 2016	45k bbls oil	\$68.60/bb		\$88.60/bb	904
US dollar collar	Apr-Jun 2016	30k bbls oil	\$65.10/bb		\$85.10/bb	532
US dollar collar	Apr-Jun 2016	22.5k bbls oil	\$63.75/bb		\$80.75/bb	333
US collar collar	Jul-Sep 2016	45k bbls oil	\$66.75/bb		\$86.75/bb	781
US collar collar	Jul-Sep 2016	30k bbls oil	\$65.45/bb		\$85.45/bb	494
US collar collar	Jul-Sep 2016	22.5k bbls oil	\$61.25/bb		\$81.25/bb	308

	Term	Contract amount	Contract price/crate			Fair value at 31 December 2015 £000
			Buy Put	Sell Call	Buy Call	
US dollar collar	Oct-Dec 2016	30k bbls oil	\$45.00/bb	\$58.05/bb	\$78.05/bb	112

The derivatives mature over the period from 1 January 2016 to 31 December 2016. During the period to 31 December 2015 oil hedges for 301 thousand barrels matured generating a net gain of £3.3 million (note 3).

## 24 Financial instruments and risk management continued

### Fair value of financial assets and financial liabilities

The carrying values of the financial assets and financial liabilities, other than bonds, are considered to be materially equivalent to their fair values.

### Financial risk management

The Group's principal financial liabilities, other than derivatives, comprise borrowings, warrants and trade and other payables. The main purpose of these financial liabilities is to finance the Group's operations, including the Group's capital expenditure programme. The Group has trade and other receivables and cash and cash equivalents that are derived directly from its operations and restricted cash. The Group also enters into derivative transactions to manage its commodity price exposure.

The Group manages its exposure to key financial risks in accordance with its financial risk management policy. The objective of the policy is to support the Group's financial targets while protecting future financial security. The Group is exposed to the following risks:

- Market risk, including commodity price and foreign currency risks,
- Credit risk, and
- Liquidity risk.

The Group is not exposed to interest rate risk as at 31 December 2016 as all the Group's borrowings are at a fixed rate.

Management reviews and agrees policies for managing each of these risks which are summarised below. The Group's policy is that all transactions involving derivatives must be directly related to the underlying business of the Group. The Group does not use derivative financial instruments for speculative purposes.

### Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market factors, such as commodity price and foreign currency.

The sensitivity analyses below have been prepared on the basis that the amount of net debt and the proportion of financial instruments in foreign currencies are all constant and that financial derivatives are held to maturity. The sensitivity analysis is intended to illustrate the sensitivity to changes in market variables on the Group's financial instruments and show the impact on profit or loss and shareholders' equity, where applicable.

The following assumptions have been made in calculating the sensitivity analysis:

- The sensitivity of the relevant profit before tax item is the effect of the assumed changes in respective market risks. This is based on the financial assets and financial liabilities held at 31 December 2016 and 31 December 2015, and
- The impact on equity is the same as the impact on profit before tax and ignores the effects of deferred tax, if any.

### Commodity price risk

The Group is exposed to the risk of fluctuations in prevailing market commodity prices (primarily crude oil) on the mix of oil and gas products it produces. The Group's policy is to manage these risks through the use of derivative financial instruments.

The following table summarises the impact on profit before tax for changes in commodity prices on the fair value of derivative financial instruments. The impact on equity is the same as the impact on profit before tax as these derivative financial instruments have not been designated as hedges and are classified as held-for-trading.

The analysis is based on derivative contracts existing at the balance sheet date, the assumption that crude oil price moves 15% over a 12 month period, with all other variables held constant. Management believe that 15% is a reasonable sensitivity based on forward forecasts of estimated oil price volatility.

	Increase/(decrease) in profit before tax for the period/year ended and to equity as at	
	31 December 2016 £000	31 December 2015 £000
15% increase in the price of oil	3,001	1,544
15% decrease in the price of oil	3,001	(1,544)

# CONSOLIDATED FINANCIAL STATEMENTS – NOTES

## AS AT 31 DECEMBER 2016 CONTINUED

### 24 Financial instruments and risk management continued

#### Foreign currency risk

The Group has transactional currency exposures. Such exposure arises from sales, purchases or financing in currencies other than the UK pound sterling, the functional currency of all Group companies. The Group's sales are denominated in US dollars, and around 5% of costs are denominated in currencies other than the functional currencies of the entities within the Group, primarily US dollars. The Group borrowings are also denominated in US dollars. The Group's exposure to other currencies is not considered material.

The following table summarises the impact on profit before tax for changes in the US dollar/pound sterling exchange rate on the financial assets and liabilities in the balance sheet at period end, principally relating to the Group's borrowings which are denominated in US dollars. The impact on equity is the same as the impact on profit before tax.

The analysis is based on the assumption that the pound moves 10%, with all other variables held constant.

	Increase/(decrease) in profit before tax for the year/period ended and on equity 1-201	
	31 December 2016	31 December 2015
	£000	£000
10% strengthening of the pound against the US dollar	10,033	6,750
10% weakening of the pound against the US dollar	(10,033)	(6,750)

#### Credit risk

The Group has a credit policy to assess and manage the credit risk of counterparties before entering contracts, including credit checks through external credit agencies, the establishment of credit limits, a requirement for security, payment terms and specific transaction approvals. The primary credit exposures of the Group are its receivables from crude oil and electricity sales, amounts due from Joint Venture partners and exposure with respect to derivative contracts. These exposures are managed at the corporate level. The Group has two main customers and only trades with established counterparties who have been approved in accordance with the Group's credit policy.

At 31 December 2016, two customers (31 December 2015: two) accounted for approximately 97% (31 December 2015: 87%) of trade receivables of £3.6 million.

With respect to credit risk arising from the other financial assets of the Group, which comprise cash, cash equivalents and derivative contracts, the Group's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments. The Group limits its counterparty credit risk on these assets by dealing only with financial institutions with credit ratings of at least A or equivalent other than if the UK government is a majority shareholder. At 31 December 2016, the maximum exposure was £24.9 million (31 December 2015: £25.3 million).

## 24 Financial instruments and risk management continued

### Liquidity risk

The Group manages liquidity risk by maintaining adequate banking and borrowing facilities by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities and future capital and operating commitments.

The table below summarises the maturity profile of the Group's financial liabilities based on contractual undiscounted payments.

	On demand £'000	1 year £'000	1-2 year £'000	2-3 year £'000	3-5 year £'000	Total £'000
<b>At 31 December 2016</b>						
Borrowings	–	18,582	122,314	–	–	140,896
Trade and other payables	–	2,773	–	–	–	2,773
Warrants	–	11	–	–	–	11
	–	21,366	122,314	–	–	143,680
<b>At 31 December 2015</b>						
Borrowings	–	15,531	14,784	99,664	–	130,059
Trade and other payables	–	3,751	–	–	–	3,751
Warrants	–	147	–	–	–	147
Deferred contingent consideration	–	–	–	–	950	950
	–	19,489	14,784	99,664	950	134,887

See note 29 for changes to borrowings subsequent to year end. Management considers that the Group has adequate current assets and forecast cash from operations to manage liquidity risks arising from current liabilities and non-current liabilities.

### Capital management

The Group manages its capital to ensure that it remains sufficiently funded to support its business strategy and maximise shareholder value.

The Group's funding needs are met through a combination of debt and equity and adjustments made in light of changes in economic conditions.

The Group's strategy is to maintain ratios in line with covenants associated with the issued bonds.

The Group monitors capital using a gearing ratio, which is net debt divided by equity plus net debt. The Group includes interest bearing loans less cash, cash equivalents and restricted cash in net debt. Capital includes share capital, share premium, other reserves and accumulated profits/losses.

The Company completed a restructuring and fundraising package on 3 April 2017 (see note 29). Management believe that the new capital structure will be sustainable in the current oil price environment and, together with a carried work programme of up to \$230 million, means that the Company is well positioned to pursue its strategy.



# CONSOLIDATED FINANCIAL STATEMENTS – NOTES

## AS AT 31 DECEMBER 2016 CONTINUED

### 25 Share capital

	Number of shares	Ordinary shares Nominal value £000
<b>Issued and fully paid</b>		
1 April 2015, ordinary shares of 10p each	296,924,562	29,692
22 April 2015 shares issued at a price of 28.25p each	479,160	48
23 July 2015 shares issued at a price of 25p each	333,436	33
22 October 2015 shares issued at a price of 22p each	512,930	51
22 October 2015 shares issued at a price of 22p each (note 27)	573,576	58
31 December 2015, ordinary shares of 10p each	298,823,664	29,882
22 January 2016 shares issued at a price of 14.25p each	757,096	76
22 April 2016 shares issued at a price of 14.5p each	480,792	48
1 May 2016 shares issued at a price of 15.66p each (note 27)	1,767,220	177
22 July 2016 shares issued at a price of 11.75p each	502,582	50
24 October 2016 shares issued at a price of 12.5p each (note 27)	489,224	49
<b>31 December 2016, ordinary shares of 10p each</b>	<b>302,820,578</b>	<b>30,282</b>

Accordingly, the Group share capital account comprised

<b>Share capital account</b>	
At 1 April 2015	29,692
Shares issued during the period	190
At 31 December 2015	29,882
Shares issued during the year	400
<b>At 31 December 2016</b>	<b>30,282</b>

### 26 Share premium and capital redemption reserve account

The share premium account arises from the Company issuing shares for consideration in excess of their nominal value less the cost of such issues. During the year, the Company issued 3,996,914 ordinary shares at a nominal value of 10p each (Nine months ended 31 December 2015: 1,899,102 shares issued) resulting in an increase in the share premium account of £0.18 million (31 December 2015: £0.3 million) – see note 25. There were no issuing costs (31 December 2015: £nil).

The capital redemption reserve was created during the year ended 31 March 2013 when the Company repurchased 100% of its outstanding deferred shares which had been issued with a nominal value of 40p each. The deferred shares were subsequently cancelled by the Company resulting in a reduction in share capital and a corresponding recognition of a capital redemption reserve of £64.8 million.

In May 2016, a special resolution was passed approving a reduction of the Company's capital by way of the cancellation of the balance on the Company's share premium account and capital redemption reserve at that date, thereby eliminating the deficit on retained earnings and creating distributable reserves.

## 27 Other reserves

Other reserves are as follows

	Warrant/share premium reserves £'000	Treasury shares £'000	Capital contributions £'000	Merger reserve £'000	Total £'000
Balance 1 April 2015	3,202	(1,985)	47	-	1,264
Adjustment <sup>1</sup>	-	-	-	22,222	22,222
Adjusted balance at 1 April 2015	3,202	(1,985)	47	22,222	23,486
Employee share plans – cost under IFRS 2	1,344	-	-	-	1,344
Forfeiture of LTIPs under the employee share plan	(1,000)	-	-	-	(1,000)
Lapse of LTIPs under the employee share plan	(286)	-	-	-	(286)
Adjusted balance 31 December 2015	3,261	(1,985)	47	22,222	23,544
Employee share plans – cost under IFRS 2	5,225	-	-	-	5,225
Employee share plans – shares issued under the SIP	-	119	-	-	119
Forfeiture of LTIPs under the employee share plan	(131)	-	-	-	(131)
Shares released from the Trust due to exercise of options	(14)	14	-	-	-
Transfers	(202)	202	-	-	-
<b>Balance 31 December 2016</b>	<b>8,138</b>	<b>(1,650)</b>	<b>47</b>	<b>22,222</b>	<b>28,757</b>

<sup>1</sup> Re-classification of share capital, share premium, capital redemption reserve and other reserves to goodwill in case of the parent company. This adjustment classification adopted on the reverse share acquisition in December 2007.

The merger reserve arose as a result of a reverse acquisition on 31 December 2007 whereby Island Gas Limited (“IGL”) became a wholly owned subsidiary of the Company but with IGL’s shareholders acquiring 94% of the ordinary share capital of the Company. The reserve represents the difference in the fair value and the nominal value of the shares issued. The reserve is not distributable.

## Employee share plans – equity settled

Details of the share options under employee share plans outstanding are as follows

	EIP		MSP		SIPP		LTIP		VLP	
	Number of units	Weighted average exercise price (pence)	Number of units	Weighted average exercise price (pence)	Number of units	Weighted average exercise price (pence)	Number of units	Weighted average exercise price (pence)	Number of units	Weighted average exercise price (pence)
Outstanding at 1 April 2015	-	-	-	-	-	-	3,850,253	-	80	-
Exercisable at 1 April 2015	-	-	-	-	-	-	-	-	-	-
Granted during the period	-	-	7,143,610	-	6,500,000	-	1,809,296	-	-	-
Cancelled during the period	-	-	-	-	-	-	(2,085,941)	-	(42)	-
Forfeited during the period	-	-	-	-	-	-	(1,730,308)	-	(38)	-
Outstanding at 31 December 2015	-	-	7,143,610	-	6,500,000	-	1,843,300	-	-	-
Exercisable at 31 December 2015	-	-	-	-	-	-	-	-	-	-
Granted during the year	7,548,701	-	2,865,290	-	-	-	-	-	-	-
Forfeited during the year	(452,358)	-	(538,086)	-	-	-	(1,416)	-	-	-
<b>Outstanding at</b>										
<b>31 December 2016</b>	<b>7,096,343</b>	<b>-</b>	<b>9,470,814</b>	<b>-</b>	<b>6,500,000</b>	<b>-</b>	<b>1,841,884</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Exercisable at</b>										
<b>31 December 2016</b>	<b>-</b>	<b>-</b>	<b>9,470,814</b>	<b>-</b>	<b>6,500,000</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

Note: All options are on full cost and therefore the weighted average exercise price is nil.

## Executive Incentive Plan (“EIP”)

In March 2016, the Group issued 7,548,701 options under a long term incentive plan to the Executive Directors of the Company and certain other key employees of the Group which will vest, subject to meeting certain criteria, three years from grant.

The options granted under the Plan take the form of a base award. The number of ordinary shares over which the options vest may be increased by a multiple of up to two times the number of ordinary shares subject to the base award, if a specified ordinary share price is met at the vesting date.

# CONSOLIDATED FINANCIAL STATEMENTS – NOTES

## AS AT 31 DECEMBER 2016 CONTINUED

### 27 Other reserves continued

#### Executive Incentive Plan (“EIP”) continued

The fair value of the awards is based on the Monte Carlo valuation model. The key inputs into the model were: share price as of date of grant of £0.145, a risk free interest rate of 0.52% and an implied share price volatility 68.8%. It was also assumed that no options would be forfeited and no dividends would be paid during the life of the options. This resulted in a fair value of EIP awards of £1.4 million.

The EIPs outstanding at 31 December 2016 had both a weighted average remaining contractual life and maximum term remaining of 9.3 years.

The total charge for the period was £0.34 million. Of this amount, £0.1 million was capitalised and £0.24 million was charged to the Income Statement.

#### Management Retention Plan (“MRP”)

In December 2015, the Group adopted a new share-based payment scheme, the Management Retention Plan (“MRP”). Under the MRP, participants are granted nil cost options which vest and become exercisable on the first anniversary of grant subject to the Directors’ continued employment and to a one year holding period following the date of vesting.

Employees were granted 7,143,610 options in the MRP in lieu of waived options granted under the 2011 Long Term Incentive Plan (“LTIP”) and 2015 cash bonuses. The options designated by the Group as replacement awards were accounted for as a modification of the original scheme and were valued at grant date and the options awarded in lieu of cash bonuses were measured with reference to the fair value of the services received.

The fair value of the cancelled awards was re-measured at the replacement date based on the Monte Carlo valuation model. The key inputs into the model were: replacement date share price of between £0.14 and £0.24, threshold price of between £1.351 and £1.664, a risk free interest rate of between 0.37% and 0.42% and an implied share price volatility of between 73% and 86%. It was also assumed that no dividends would be paid during the life of the options. This resulted in an incremental fair value of £0.17 million.

The MRPs outstanding at 31 December 2016 had both a weighted average remaining contractual life and maximum term remaining of 6.9 years (31 December 2015: 7.9 years). The fair value of the replacement awards granted under the MRP was the grant date share price.

The total charge for the period was £1.8 million (Nine months ended 31 December 2015: £0.14 million). Of this amount, £0.6 million (31 December 2015: £0.05 million) was capitalised or recharged to joint venture partners and £1.2 million (31 December 2015: £0.09 million) was charged to the Income Statement.

#### Executive Director Retention Plan (“EDRP”)

In July 2015, the Group adopted a new share-based payment scheme, the Executive Director Retention Plan (“EDRP”). Under the EDRP, participants are granted nil cost options which vest and become exercisable on the first anniversary of grant subject to the Directors’ continued employment and to a one year holding period following the date of vesting.

Executives were granted 6,500,000 options in the EDRP in lieu of waived options granted under the 2011 Long Term Incentive Plan (LTIP) and the Value Creation Plan (VCP). The options have been designated by the Group as replacement awards at grant date and were accounted for as a modification of the original scheme.

The fair value of the cancelled awards was re-measured at the replacement date based on the Monte Carlo valuation model. The fair value of waived options was based on the share price at grant date of £0.25. The fair value of replacement awards was based on the Monte Carlo valuation model. The key inputs into the model were: replacement date share price of £0.23, threshold price of between £0.945 and £1.664, a risk free interest rate of between 0.49% and 0.60% and an implied share price volatility of between 70% and 78%. It was also assumed that no dividends would be paid during the life of the options. This resulted in an incremental fair value of £1.5 million.

The EDRPs outstanding at 31 December 2016 had both a weighted average remaining contractual life and maximum term remaining of 6.5 years (31 December 2015: 7.5 years). The fair value of the replacement awards granted under the EDRP was the grant date share price.

The total charge for the year was £0.80 million (Nine months ended 31 December 2015: £0.7 million). Of this amount, £0.47 million was capitalised (31 December 2015: £0.33 million) and £0.33 million was charged to the Income Statement (31 December 2015: £0.4 million).

#### Long Term Incentive Plan 2011 (“2011 LTIP”)

In November 2011, the Company adopted a Long Term Incentive Plan scheme for certain key employees of the Group. Under the LTIP, participants can each be granted nil cost options over up to 300% of remuneration for the Initial Award and up to 150% of remuneration for the Annual Award (subject to an overall plan limit of 10% of the issued share capital of the Company for all participants). The LTIP has a three year performance period and awards vest subject to share price performance exceeding the Company’s weighted average cost of capital of 10%. On a change of control prior to the third anniversary of the grant date, a proportion of the options that vest will take into account items such as the time the option has been held by the participant and the performance achieved in the period from the grant date. Other than on a change of control, 100% of vested awards can be exercised and sold on vesting.

**27 Other reserves continued****Long Term Incentive Plan 2011 ("2011 LTIP") continued**

There were no LTIPs exercised during the year. The LTIPs outstanding at 31 December 2016 had both a weighted average remaining contractual life and maximum term remaining of 8.9 years (31 December 2015: 9.9 years). The fair value of the awards granted under the plan are measured at grant date using a Monte Carlo Simulation Model.

The total charge for the year was £0.40 million (Nine months ended 31 December 2015: £0.19 million). Of this amount, £0.23 million was capitalised (31 December 2015: £0.06 million) and £0.17 million was charged to the Income Statement (31 December 2015: £0.13 million).

During the period to 31 December 2015, the Company undertook a restructuring programme. The share options and units previously granted to employees under 2011 LTIP have been forfeited, none of which having vested or become exercisable prior to this date due to the termination of employment. This resulted in a release of prior charges under IFRS 2 – credit to the income statement of £0.089 million, credit against exploration and evaluation assets of £0.069 million and a charge to other reserves of £0.158 million.

**Value Creation Plan ("2014 VCP")**

In July 2014, the Company adopted the IGas 2014 Value Creation Plan ("VCP"). Under the VCP, performance units will be granted which convert into a certain number of shares at the end of a three year performance period. The VCP requires creation of shareholder value in excess of a threshold hurdle of 10% annualised share price growth from 1 April 2014. If this hurdle is met at the end of the performance period, participants will receive in aggregate 1.25% of the shareholder value created above the hurdle. 50% of this value will vest in shares of equivalent value at end of the performance period and 25% at the end of each of the following two years. The awards granted under the VCP scheme are measured at grant date using a Monte Carlo Simulation Model.

For the VCP, when significant additional capital is raised (more than 10% of the Company's issued share capital) following the grant date, a separate tranche of the VCP award is created with its own threshold price and share capital. Therefore any additional shares issued will have to be considered separately in determining the VCP accounting expense for periods following this capital event.

The total charge for the year was £1.76 million (Nine months ended 31 December 2015: £0.70 million). Of this amount, £1.10 million was capitalised (31 December 2015: £0.39 million) and £0.66 million was charged to the Income Statement (31 December 2015: £0.31 million).

During the period to 31 December 2015, the Company undertook a restructuring programme. The share options and units previously granted to employees under 2011 VCP have been forfeited, none of which having vested or become exercisable prior to this date due to the termination of employment. This resulted in a release of prior charges under IFRS 2 – credit to the income statement of £0.39 million, credit against exploration and evaluation assets of £0.45 million and a charge to other reserves of £0.84 million.

The VCP was replaced by the CORP in its entirety.

The inputs into the Monte Carlo models were as follows:

	2011 LTIP				VCP	
	Granted Nov 11	Granted Jun 12	Granted Sep 13	Granted Jul 14	Granted Jul 14 (inc capital raise)	Granted Jul 14 (excl capital raise) relating to Part 14
Share price on grant	50.5p	66.5p	102.0p	112.0p	112.0p	75.0p
Exercise price	Nil	Nil	Nil	Nil	Nil	Nil
Expected volatility	35%	31%	43%	47%	47%	47%
Expected life	6.5 years	6.5 years	6.5 years	2.7 years	2.7 years	2.5 years
Risk-free rate	0.70%	0.35%	0.85%	1.28%	1.28%	0.80%
Expected dividends	0%	0%	0%	0%	0%	0%
Weighted average fair value of awards/units granted	23.12p	26.72p	50.90p	51.55p	£64,989	£22,447

# CONSOLIDATED FINANCIAL STATEMENTS – NOTES

## AS AT 31 DECEMBER 2016 CONTINUED

### 27 Other reserves continued

#### Other share based payments

##### Share Incentive Plan ("SIP")

In 2013, the Group adopted an HMRC approved Share Investment Plan ("SIP") for all employees of the Group. The scheme is a tax efficient incentive plan pursuant to which all employees are eligible to acquire up to £125 (or 10% of salary, if less) worth of IGas ordinary shares per month or £1,500 per annum. Under the SIP employees are invited to make contributions to buy partnership shares. If an employee agrees to buy partnership shares the Company currently matches the number of partnership shares bought with an award of shares (matching shares), on a one-for-one or two-for-one basis.

The total charge for the year was £0.27 million (Nine months ended 31 December 2015: £0.2 million). Of this amount, £0.05 million was capitalised (31 December 2015: £0.04 million) and £0.22 million was charged to the income statement (31 December 2015: £0.16 million).

#### Other

In May 2016, the Group issued 1,767,219 ordinary shares with a fair value of £0.28 million to Ephinido International CBM Holdings Inc as a part payment for the acquisition of Sangatta West CBM Inc.

#### Treasury shares

The Treasury shares of the Group have arisen in connection with the shares issued to the IGas Energy Employee Benefit Trust ("the Trust"), of which the Company is the sponsoring entity. The value of such shares is recorded in the share capital and share premium accounts in the ordinary way and is also shown as a deduction from equity in this separate reserve account. There is therefore no net effect on shareholders' funds.

During the year ended 31 December 2016 there were no shares issued to the Trust (Nine months ended 31 December 2015: nil). However, 246,720 ordinary shares of 10p each in the capital of the Company were released from the Trust on exercise of share options by former employees.

#### Capital contribution

The capital contribution relates to cash received following the acquisition of IGAS Exploration UK Limited.

#### Merger reserve

The merger reserve arose as a result of a reverse acquisition on 31 December 2007 whereby Island Gas Limited ("IGL") became a wholly owned subsidiary of the Company but with IGL's shareholders acquiring 94% of the ordinary share capital of the Company. The reserve represents the difference in the fair value and the nominal value of the shares issued. The reserve is not distributable.

### 28 Related party transactions

The information below sets out transactions and balances between the Group and related parties in the normal course of business for the year ended 31 December 2016.

The Directors of the Company are considered to be the only key management personnel as defined by IAS 24 – Related Party Disclosures. Transactions with key management personnel were as follows:

	Year ended 31 December 2016 £000	Nine months ended 31 December 2015 £000
Short-term employee benefits (including related social security costs)	1,467	975
Share plan	1,108	163
	<b>2,575</b>	<b>1,138</b>

Short-term employee benefits: These amounts comprise fees paid to the Directors in respect of salary and benefits earned during the relevant financial year, plus bonuses awarded for the year.

Share plan: This is the cost to the Group of Directors' participation in LTIPs, VCP, EDRP and EIP plans, as measured by the fair value of LTIPs, VCPs, EDRPs and EIPs granted, accounted for in accordance with IFRS 2.

Further details regarding the remuneration of the Directors of the Group are disclosed in the Directors' Remuneration report.

C McDowell currently holds \$0.25 million (31 December 2015: \$0.25 million) of bonds issued by the Group. These bonds earn interest at 10% per annum. During the year ended 31 December 2016, the interest paid was \$0.03 million (Nine months ended 31 December 2015: \$0.03 million). Accrued interest at 31 December 2016 amounted to \$6.9 thousand (31 December 2015: \$7.3 thousand).

## 29 Subsequent events

### SIP scheme

On 30 January 2017, the Company issued 484,956 Ordinary 10p shares in relation to the Group's SIP scheme. On 4 May 2017, the Company issued 956,464 Ordinary 0.0001p shares in relation to the Group's SIP scheme.

### Capital restructure

During the year, the Company disclosed that it expected to be non-compliant with its leverage covenants under its secured bond agreement at 31 December 2016 and that it also expected to breach its daily liquidity covenant in late March 2017. The Company therefore engaged in discussions with its bondholders, a strategic investor and other potential investors and stakeholders with regard to possible restructuring options in order to provide a remedy to the expected breach and achieve a capital structure that would be sustainable in the current oil price environment. In March 2017, the Company announced final terms of the restructuring and fundraising package which were subsequently approved at the meetings of the Company's secured and unsecured bondholders and at the general meeting of shareholders on 3 April 2017. In addition, the shareholders approved the subdivision of each of the 303,305,534 ordinary shares of 10p each of the Company into one new ordinary share of 0.0001p each and one deferred share of 9.9999p each.

On 4 April 2017, the Company announced that all new ordinary shares issued in accordance with the terms of the fundraising were admitted to trading and, as a result, the restructuring of the Company's secured bonds and unsecured bonds and the fundraising had become effective in accordance with their respective terms. The principal terms are set out below:

- 679,282,165 new ordinary shares were issued to Unconventional Energy Limited, an affiliate of Kerogen Capital, pursuant to a subscription agreement (including 40,030,273 new ordinary shares at nominal value pursuant to a top-up mechanism) raising £28.77 million and giving Unconventional Energy Limited an interest of 28% in the Company.
- 400,069,644 new ordinary shares were issued pursuant to a placing/open offer and ancillary subscription raising £18.04 million.
- 528,175,031 new ordinary shares were issued to holders of secured bonds who accepted voluntary equity exchange of secured bonds extinguishing \$28.92 million (£23.78 million) in face value of the secured bonds.
- 202,398,542 new ordinary shares were issued to holders of secured bonds pursuant to a conditional secured debt for equity swap extinguishing a further \$11.08 million (£9.11 million) in face value of the secured bonds.
- c.\$49.2 million (£40.4 million) in face value of secured bonds were cancelled in consideration for c.\$49.2 million (£40.4 million) cash pursuant to a voluntary cash offer.
- 312,776,818 new ordinary shares were issued to holders of unsecured bonds on the conversion of all unsecured bonds into equity extinguishing \$27.4 million (£22.5 million) in face value, being all of the unsecured bonds not held by the Company.
- The Company cancelled \$13.09 million (£10.7 million) in face value of the secured bonds and unsecured bonds held by the Company, being all of the unsecured bonds and secured bonds held by the Company.
- The renegotiated terms and conditions and covenants for the remaining secured bonds (total aggregate face value of c.\$30.08 million) came into effect upon admission.
- The new ordinary shares were issued at a price of 4.5p per share.

## PARENT COMPANY FINANCIAL STATEMENTS – DIRECTORS' STATEMENT OF RESPONSIBILITIES

The Directors are responsible for preparing the Annual Report and Parent Company financial statements in accordance with applicable United Kingdom law and those International Financial Reporting Standards as adopted by the European Union ("IFRSs").

Under Company Law the Directors must not approve the Parent Company financial statements unless they are satisfied that they present fairly the financial position of the Parent Company and its financial performance and cash flows for that period. In preparing the Parent Company financial statements the Directors are required to:

- Present fairly the financial position, financial performance and cash flows of the Parent Company;
- Select suitable accounting policies in accordance with IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors' and then apply them consistently;
- Present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- Make judgements and estimates that are reasonable and prudent;
- Provide additional disclosures when compliance with the specific requirements in IFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Parent Company's financial position and financial performance;
- State that the Parent Company has complied with IFRSs, subject to any material departures disclosed and explained in the financial statements; and
- Prepare the accounts on a going concern basis unless, having assessed the ability of the Parent Company to continue as a going concern, management either intends to liquidate the entity or to cease trading, or has no realistic alternative but to do so.

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

The Directors confirm that they have complied with these requirements and, having a reasonable expectation that the Parent Company has adequate resources to continue in operational existence for the foreseeable future, will continue to adopt the going concern basis in preparing the accounts.

# INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF IGAS ENERGY PLC

## Report on the Company financial statements

### Our opinion

In our opinion, IGas Energy plc's Company financial statements (the "financial statements")

- give a true and fair view of the state of the Company's affairs as at 31 December 2016 and of its cash flows for the year then ended,
- have been properly prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

### What we have audited

The financial statements, included within the Annual Report and Accounts (the "Annual Report"), comprise

- the Parent Company Balance Sheet as at 31 December 2016;
- the Parent Company Cash Flow Statement for the year then ended;
- the Parent Company Statement of Changes in Equity for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is IFRSs as adopted by the European Union, and applicable law, and as applied in accordance with the provisions of the Companies Act 2006

In applying the financial reporting framework, the Directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

### 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.

In addition, in light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we are required to report if we have identified any material misstatements in the Strategic Report and the Directors' Report. We have nothing to report in this respect.

### Opinion on additional disclosures

#### Directors' Remuneration Report

The Company voluntarily prepares a Directors' Remuneration Report in accordance with the provisions of the Companies Act 2006. The Directors have requested that we audit the part of the Directors' Remuneration Report specified by the Companies Act 2006 to be audited as if the Company were a quoted company.

In our opinion, the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006

### Other matters on which we are required to report by exception

#### Adequacy of accounting records and information and explanations received

Under the Companies Act 2006 we are required to report to you if, in our opinion

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the Company, or returns adequate for our audit have not been received from branches not visited by us, or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

### Directors' remuneration

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of Directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.



# INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF IGAS ENERGY PLC CONTINUED

## Responsibilities for the financial statements and the audit

### Our responsibilities and those of the Directors

As explained more fully in the Directors' Statement of Responsibilities set out on page 94, 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) ("ISAs (UK & Ireland)"). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

### What an audit of financial statements involves

We conducted our audit in accordance with ISAs (UK & Ireland). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the Directors, and
- the overall presentation of the financial statements

We primarily focus our work in these areas by assessing the Directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report. With respect to the Strategic Report and Directors' Report, we consider whether those reports include the disclosures required by applicable legal requirements.

### Other matter

We have reported separately on the Group financial statements of IGas Energy plc for the year ended 31 December 2016.

### Richard Spilsbury

(Senior Statutory Auditor)

for and on behalf of PricewaterhouseCoopers LLP

Chartered Accountants and Statutory Auditors

London

4 May 2017

The maintenance and integrity of the IGas Energy plc website is the responsibility of the Directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

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

# PARENT COMPANY BALANCE SHEET AS AT 31 DECEMBER 2016

		31 December 2016	31 December 2015
	Notes	£000	£000
<b>ASSETS</b>			
<b>Non-current assets</b>			
Investments in subsidiaries	2	397,774	383,005
Property, plant and equipment	3	124	194
		<b>397,898</b>	<b>383,199</b>
<b>Current assets</b>			
Trade and other receivables	4	39,366	45,980
Cash and cash equivalents	5	21,205	21,105
		<b>60,571</b>	<b>67,085</b>
<b>Total assets</b>		<b>458,469</b>	<b>450,284</b>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Trade and other payables	6	(174,839)	(144,220)
Borrowings	8	(6,084)	(4,819)
Other liabilities	9	(11)	(147)
		<b>(180,934)</b>	<b>(149,186)</b>
<b>Non-current liabilities</b>			
Borrowings	8	(118,495)	(98,060)
		<b>(118,495)</b>	<b>(98,060)</b>
<b>Total liabilities</b>		<b>(299,429)</b>	<b>(247,246)</b>
<b>Net assets</b>		<b>159,040</b>	<b>203,038</b>
<b>EQUITY</b>			
<b>Capital and reserves</b>			
Called up share capital	12	30,282	29,882
Share premium account	13	32	121,623
Capital redemption reserve	13	–	64,882
Merger reserve	14	22,222	22,222
Other reserves	15	6,535	1,322
Surplus/(accumulated deficit)		99,969	(36,873)
<b>Total equity</b>		<b>159,040</b>	<b>203,038</b>

These financial statements were approved and authorised for issue by the Board on 4 May 2017 and are signed on its behalf by

  
**Stephen Bowler**  
Chief Executive Officer

  
**Julian Tedder**  
Chief Financial Officer

The notes on pages 100 to 116 form an integral part of these financial statements

STRATEGIC REPORT

CORPORATE GOVERNANCE

FINANCIAL STATEMENTS

# PARENT COMPANY STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2016

	Called up share capital (note 12) £000	Share premium account (note 13) £000	Capital redemption reserve (note 13) £000	Merger reserve (note 14) £000	Other reserves (note 15) £000	Surplus or deficit (note 15) £000	Total equity £000
<b>Balance at 1 April 2015</b>	<b>29,692</b>	<b>121,355</b>	<b>64,882</b>	<b>22,222</b>	<b>1,264</b>	<b>(34,869)</b>	<b>204,546</b>
Total comprehensive loss for the period	-	-	-	-	-	(2,310)	(2,310)
Employee share plans (note 15)	-	-	-	-	1,344	-	1,344
Forfeiture of LTIPs under the employee share plan (note 15)	-	-	-	-	(1,000)	-	(1,000)
Lapse of LTIPs under the employee share plan (note 15)	-	-	-	-	(286)	286	-
Issue of shares (note 12)	190	268	-	-	-	-	458
<b>Balance at 31 December 2015 and 1 January 2016</b>	<b>29,882</b>	<b>121,623</b>	<b>64,882</b>	<b>22,222</b>	<b>1,322</b>	<b>(36,893)</b>	<b>203,038</b>
Loss and total comprehensive loss for the period	-	-	-	-	-	(49,796)	(49,796)
Capital reduction	-	(121,776)	(64,882)	-	-	186,658	-
Employee share plans (note 15)	-	-	-	-	5,344	-	5,344
Forfeiture of LTIPs under the employee share plan (note 15)	-	-	-	-	(131)	-	(131)
Issue of shares (note 12)	400	185	-	-	-	-	585
<b>Balance at 31 December 2016</b>	<b>30,282</b>	<b>32</b>	<b>-</b>	<b>22,222</b>	<b>6,535</b>	<b>99,969</b>	<b>159,040</b>

The notes on pages 100 to 116 form an integral part of these financial statements

# PARENT COMPANY CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2016

	Year ended 31 December 2016 £000	Year ended 31 December 2015 £000	
			STRATEGIC REPORT
<b>Cash flows from operating activities:</b>			
Loss for the year/period	(49,796)	(2,310)	
Depletion, depreciation and amortisation	90	75	
Share based payment charge	1,110	(45)	
Adjustment for loss on disposal of a subsidiary	277	-	
Impairment of intercompany receivable	9,137	-	
Other non-cash adjustments	19	177	
Finance income	(10,781)	(10,121)	
Finance costs	29,856	10,078	
Operating cash flow before working capital movements	(20,088)	(2,146)	
Increase in trade and other receivables	(2,523)	(27)	
Increase in trade and other payables	30,619	25,042	
<b>Net cash generated from operating activities</b>	<b>8,008</b>	<b>22,869</b>	
<b>Cash flows from investing activities:</b>			
Interest received	130	19	
Purchase of property, plant and equipment	(20)	-	
<b>Net cash generated from investing activities</b>	<b>110</b>	<b>19</b>	
<b>Cash flows from financing activities:</b>			
Cash proceeds from issue of ordinary share capital	13	125	
Interest paid	(11,570)	(5,925)	
Bond renegotiation costs	-	(940)	
Repayment of loans and borrowings	(4,916)	(6,139)	
Cash proceeds from sale of bonds	4,914	-	
<b>Net cash used in financing activities</b>	<b>(11,436)</b>	<b>(12,879)</b>	
Net (decrease)/increase in cash and cash equivalents in the year/period	(3,318)	10,009	
Net foreign exchange difference	3,418	324	
Cash and cash equivalents at the beginning of the year/period	21,105	10,772	
<b>Cash and cash equivalents at the end of the year/period</b>	<b>21,205</b>	<b>21,105</b>	

The notes on pages 100 to 116 form an integral part of these financial statements

# PARENT COMPANY FINANCIAL STATEMENTS – NOTES

## AS AT 31 DECEMBER 2016

### 1 Accounting policies

#### (a) Basis of preparation of financial statements

The Parent Company financial statements of IGas Energy plc (the "Company") have been prepared in accordance with International Financial Reporting Standards, adopted for use by the European Union ("IFRSs") as they apply to the Company for the year ended 31 December 2016, and with the Companies Act 2006. The accounting periods are not comparable as the prior nine month period represents a short period of account to align the year end with the year end of major operating partners. The accounts were approved by the Board and authorised for issue on 4 May 2017. IGas Energy plc is a public limited company incorporated, registered in England and Wales and is listed on the Alternative Investment Market ("AIM").

The Company's financial statements are presented in UK pound sterling and all values are rounded to the nearest thousand ("£000") except when otherwise indicated.

As a Consolidated income statement is published in this Annual Report, a separate income statement for the Company is not presented within these financial statements as permitted by Section 408 of the Companies Act 2006. The Company reported a loss for the year of £49.8 million (Nine months ended 31 December 2015: a loss of £2.3 million).

During the year, the Company adopted the following new and amended IFRSs which were applicable to the Group's activities as of 1 January 2016:

IAS 1	Disclosure initiative – Amendments to IAS 1. The Group has concluded that this amendment has no impact on the Financial Statements as no changes are made to the current presentation of notes or specific line items in the Income Statement and the Balance Sheet.	1 January 2016*
IAS 16 and IAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation – Amendments to IAS 16 and IAS 38. The Group has concluded that this amendment has no impact on the Financial Statements as Group does not use revenue-based amortisation methods for property, plant and equipment.	1 January 2016*

#### New and amended standards and interpretations

Certain new standards, interpretations and amendments to existing standards have been published and are mandatory only for the Group's accounting periods beginning on or after 1 January 2017 or later periods and which the Group has not adopted early. Those that may be applicable to the Group in future are as follows:

IAS 7	Disclosure initiative – Amendments to IAS 7	1 January 2017*
IAS 12	Recognition of Deferred Tax Assets for Unrealised Losses – Amendments to IAS 12	1 January 2017*
IFRS 9	Financial Instruments	1 January 2018*
IFRS 2	Classification and Measurement of Share-based Payment Transactions – Amendment to IFRS 2	1 January 2018*
IFRS 16	Leases	1 January 2019*

\* The effective dates stated above are those given in the original IAS/IFRS standards and interpretations. As the Company prepares financial statements in accordance with IFRS as adopted by the European Union ("EU-IFRS"), the application of new standards and interpretations will be subject to them having been endorsed for use in the EU via the EU endorsement mechanism. In the majority of cases, this will result in an effective date on or later than that given in the original standard or interpretation, but the need for endorsement restricts the Company's ability to early adopt standards.

The Company is currently assessing the impact that these amendments will have on its financial position. The Company does not anticipate adopting these standards and interpretations ahead of their effective dates.

#### (b) Going concern

The strength of the Company's balance sheet has been improved significantly by the capital restructuring, as disclosed in note 17 to the financial statements. Based on their strategic plans and working capital forecasts, the Directors have a reasonable expectation that the Company has adequate resources to continue in existence for the foreseeable future. Thus they continue to adopt the going concern basis in the preparation of the financial statements.

**1 Accounting policies continued****(c) Significant accounting judgements and estimates**

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities are discussed below.

**Recoverable value of investment in subsidiaries**

The Company evaluates investments in subsidiaries for indicators of impairment as described in (d) below. Any impairment test, where required, involves estimates and associated assumptions related to matters (when appropriate), such as recoverable reserves, production profiles, forward gas and electricity prices, development, operational and offtake costs, nature of land access agreements and planning permissions, application of taxes, and other matters. Where the final outcome or revised estimates related to such matters differ from the estimates used in any earlier impairment reviews, the results of such differences, to the extent that they actually affected any impairment provisions, are accounted for when such revisions are made. Details of the Company's investments are disclosed in note 2.

**Functional currency**

The determination of a company's functional currency often requires significant judgement where the primary economic environment in which it operates may not be clear. The Company's financial statements are presented in UK pound sterling, the primary economic environment of the Company.

**(d) Non-current assets****Investments in subsidiaries**

Investments in Group companies held as non-current assets are held at cost less provision for impairment unless the investments were acquired in exchange for the issue or part issue of shares in the Company, when they are initially recorded in the Company's balance sheet at the fair value of the shares issued together with the fair value of any consideration paid, including costs of acquisition less any provision for impairment.

The Company's investments in Group companies held as non-current assets are assessed for impairment whenever events or changes in circumstances indicate that the carrying value of an investment may not be recoverable, when impairment is calculated on the basis as set out below. Any impairment is charged to the income statement.

Loans to Group companies are stated at amortised cost.

**Impairment**

Impairment tests, when required, are carried out on the following basis:

- By comparing any amounts carried as investments held as non-current assets with the recoverable amount.
- The recoverable amount is the higher of an asset's fair value less costs to sell and its value in use. The Company generally assesses value in use using the estimated future cash flows discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or cash-generating unit.

Where there has been a charge for impairment in an earlier period that charge will be reversed in a later period where there has been a change in circumstances to the extent that the recoverable amount is higher than the net book value at the time. In reversing impairment losses, the carrying amount of the investment will be increased to the lower of its original carrying value and the carrying value that would have been determined had no impairment loss been recognised in prior periods.

# PARENT COMPANY FINANCIAL STATEMENTS – NOTES

## AS AT 31 DECEMBER 2016 CONTINUED

### 1 Accounting policies continued

#### (d) Non-current assets continued

##### Property, plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation. Depreciation is provided at rates calculated to write off the cost of fixed assets, less their estimated residual values, over their estimated useful lives at the following rates, with any impairment being accounted for as additional depreciation.

Buildings	over five years on a straight line basis
Fixtures, fittings and equipment	– between three and five years on a straight line basis
Motor vehicles	over four years on a straight line basis

#### (e) Financial instruments

##### Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and cash held on current account or on short-term deposits at variable interest rates with original maturity periods of up to three months. Any interest earned is accrued monthly and classified as interest income within finance income.

##### Trade and other receivables

Trade receivables are initially recognised at fair value when related amounts are invoiced, less any allowances for doubtful debts or provision made for impairment of these receivables.

##### Trade and other payables

These financial liabilities are all non-interest bearing and are initially recognised at the fair value of the consideration received.

##### Impairment of financial assets

In relation to trade receivables, a provision for impairment is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor) that the Company will not be able to collect all of the amounts due under the original terms of the invoice. The carrying amount of the receivable is reduced through use of an allowance account. Impaired debts are derecognised when they are assessed as uncollectible.

##### Warrants

When warrants do not qualify as equity instruments under IAS 39 due to the variable number of shares that would be issued in each case they are accounted for as financial liabilities. The warrants are initially recognised at fair value on the date they are issued and are subsequently remeasured to fair value at each period end. All changes in fair value are recognised in the income statement.

##### Borrowings

Borrowings are measured initially at fair value. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the Effective Interest Rate ("EIR") method. Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the EIR amortisation process. When management's estimates of the amounts or timings of cash flows are revised, borrowings are re-measured using the revised cash flow estimates under the original effective interest with any consequent adjustment being recognised in the income statement.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included in finance costs in the income statement.

##### Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of these assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in the income statement in the period in which they are incurred.

#### (f) Leases

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement at inception date including whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset.

##### Operating leases

Rentals are charged to the income statement in the year on a straight line basis over the period of the lease.

## 1 Accounting policies continued

### (g) Taxation

The tax expense represents the sum of current tax and deferred tax.

Current income tax assets and liabilities are measured at the amount expected to be recovered or paid to the tax authorities. Taxable profit/(loss) differs from the profit/(loss) before taxation as reported in the income statement 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. The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised in respect of all temporary differences that have originated but not reversed at the balance sheet date except when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss. Temporary differences arise from differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax liabilities are not discounted. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered.

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the assets are realised or the liability is settled, based on the tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax relating to items recognised outside profit or loss is recognised outside profit or loss. Deferred tax items are recognised in correlation to the underlying transaction either in other comprehensive income or directly in equity.

### (h) Share based payments

Where share options or warrants are awarded to employees (including Directors), the fair value of the options or warrants at the date of the grant is recorded in equity over the vesting period. Non-market vesting conditions, but only those related to service and performance, are taken into account by adjusting the number of equity instruments expected to vest at each balance sheet date so that, ultimately, the cumulative amount recognised over the vesting period is based on the number of options that eventually vest. All other vesting conditions, including market vesting conditions, are factored in to the fair value of the options or warrants granted. As long as all other vesting conditions are satisfied, the amount recorded is computed irrespective of whether the market vesting conditions are satisfied. The cumulative amount recognised is not adjusted for the failure to achieve a market vesting condition, although equity no longer required for options or warrants may be transferred to another equity reserve.

Where the terms and conditions of options or warrants are modified before they vest, the increase in the fair value of the options, measured by the change from immediately before to after the modification, is also recorded in equity over the remaining vesting period.

When an equity-settled award is cancelled, it is treated as if it vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately.

Where an equity settled award is identified as a replacement it will be treated as a modification to the original plan where the incremental fair value of the replacement award is expensed over the vesting period of the replacement award. The fair value of the original award on its grant date is continued to be recognised over its original vesting period.

Where equity instruments are granted to persons other than employees, the amount recognised in equity is the fair value of goods and services received.

Charges corresponding to the amounts recognised in equity are accounted as a cost against the profit and loss which will usually be to the income statement unless the services rendered qualify for capitalisation as a non-current asset. Costs may be capitalised within non-current assets in the event of services being rendered in connection with an acquisition or intangible exploration and evaluation assets or property, plant and equipment.

Where shares are issued to an Employee Benefit Trust, and the Company is the sponsoring entity, the value of such shares at issue will be recorded in share capital and share premium account in the ordinary way, but will not affect shareholders' funds since this same value will be shown as a deduction from shareholders' funds by way of a separate component of equity (Treasury shares).



# PARENT COMPANY FINANCIAL STATEMENTS – NOTES

## AS AT 31 DECEMBER 2016 CONTINUED

### 1 Accounting policies continued

#### (i) Equity

Equity instruments issued by the Company are usually recorded at the proceeds received, net of direct issue costs, and allocated between called up share capital, share premium accounts or merger reserve as appropriate.

#### (j) Foreign currency

Transactions denominated in currencies other than the functional currency UK pound sterling are translated at the exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are re-translated at the rate of exchange ruling at the balance sheet date. All differences that arise are recorded in the income statement.

### 2 Non-current assets – investments in subsidiaries

Investments in subsidiaries comprises

	31 December 2016			31 December 2015		
	Investment in Group Companies	Loans to Group companies	Total	Investment in Group Companies	Loans to Group companies	Total
	£000	£000	£000	£000	£000	£000
Parent Company						
At beginning of year/period	183,517	199,488	383,005	182,798	191,035	373,833
Additions	4,255	10,514	14,769	719	8,453	9,172
<b>At end of year/period</b>	<b>187,772</b>	<b>210,002</b>	<b>397,774</b>	<b>183,517</b>	<b>199,488</b>	<b>383,005</b>

Loans to Group companies have repayment terms of between five and seven years. Of the £210.0 million loans to Group companies, £77.7 million bear interest at 1.2% above LIBOR at the initiation of the loan, the remainder bears interest at a fixed rate of 12%.

At 31 December 2016, the Company had investments in the following 100% owned subsidiaries:

Name of company	Principal activity and country of incorporation	Registered office
<b>Subsidiaries held by Company:</b>		
Dart Energy Pty Ltd	Gas exploration, Australia	C/O PwC Level 23, 480 Queen Street, Brisbane QLD 4001
Island Gas Limited	Oil exploration, evaluation, production and marketing, England	7 Down Street, London, W1J 7AJ
Island Gas Operations Limited	Electricity generation, England	7 Down Street, London, W1J 7AJ
IGas Energy (Caithness) Limited	Oil and gas production and marketing, England	7 Down Street, London, W1J 7AJ
IGas Exploration UK Limited	Dormant, England	Interpark House, 7 Down Street, London, W1J 7AJ
Star Energy Group Limited	Service company, England	7 Down Street, London, W1J 7AJ
Star Energy Limited	Service company, England	7 Down Street, London, W1J 7AJ
Star Energy Weald Basin Limited	Oil and gas processing, England	7 Down Street, London, W1J 7AJ
Star Energy Oil and Gas Limited	Dormant, England	7 Down Street, London, W1J 7AJ
<b>Subsidiaries held through subsidiaries:</b>		
Island Gas (Singapore) Limited	Oil and gas production and marketing, England	7 Down Street, London, W1J 7AJ
Dart Energy (Europe) Limited	Investment holding, Scotland	C/O Bond Dickinson LLP, 13 Albany Terrace, Aberdeen, AB10 1YP
Star Energy (East Midlands) Limited	Dormant, England	7 Down Street, London, W1J 7AJ
Dart Energy (East England) Limited	Shale gas exploration, England	7 Down Street, London, W1J 7AJ
Dart Energy (West England) Limited	Shale gas exploration, England	7 Down Street, London, W1J 7AJ
GP Energy Limited	Investment holding, England	7 Down Street, London, W1J 7AJ
Dart Energy (Forth Valley) Limited	Gas exploration, Scotland	C/O Bond Dickinson LLP, 13 Albany Terrace, Aberdeen, AB10 1YP
Dart Energy (Carbon Storage) Limited	Dormant, Scotland	C/O Bond Dickinson LLP, 13 Albany Terrace, Aberdeen, AB10 1YP
Dart Energy (Lothian) Limited	Dormant, Scotland	C/O Bond Dickinson LLP, 13 Albany Terrace, Aberdeen, AB10 1YP
Greenpark Energy Transportation Limited	Dormant, England	7 Down Street, London, W1J 7AJ
Apollo Gas Pty Limited	Dormant, Australia	C/O PwC Level 23, 480 Queen Street, Brisbane QLD 4001
Dart Energy (Brunner) Pty Limited	Investment holding, Australia	C/O PwC Level 23, 480 Queen Street, Brisbane QLD 4001
Dart Energy (India) Pty Limited	Investment holding, Australia	C/O PwC Level 23, 480 Queen Street, Brisbane QLD 4001
Dart Energy SPV No 1 Pty Limited	Dormant, Australia	C/O PwC Level 23, 480 Queen Street, Brisbane QLD 4001
Dart Energy SPV No 2 Pty Limited	Dormant, Australia	C/O PwC Level 23, 480 Queen Street, Brisbane QLD 4001
Dart Energy (China) Pty Limited	Dormant, Australia	C/O PwC Level 23, 480 Queen Street, Brisbane QLD 4001
Dart Energy (Overseas) Pty Limited	Dormant, Australia	C/O PwC Level 23, 480 Queen Street, Brisbane QLD 4001
Dart Energy Global CBM Pty Limited	Dormant, Australia	C/O PwC Level 23, 480 Queen Street, Brisbane QLD 4001
Dart Energy India Services Pvt Limited	Service company, India	801-805, 8 <sup>th</sup> Floor, Tower B, Global Business Park, MG Road, Gurugram, Haryana

**2 Non-current assets – investments in subsidiaries continued**

Names of companies	Principal activity and Country of Incorporation	Registered office address
Dart Energy International Limited	Investment holding, Singapore	80 Robinson Road, #02-00, Singapore 068898
Dart Energy (Europe) Pte Limited	Investment holding, Singapore	80 Robinson Road, #02-00, Singapore 068898
Dart Energy (China) Holdings Pte Limited	Investment holding – dormant, Singapore	80 Robinson Road, #02-00, Singapore 068898
Dart Energy (India) Pte Limited	Investment holding – dormant, Singapore	80 Robinson Road, #02-00, Singapore 068898
Dart Energy (ST) Pte Limited	Investment holding, Singapore	80 Robinson Road, #02-00, Singapore 068898
Dart Energy (AS) Pte Limited	Investment holding, Singapore	80 Robinson Road, #02-00, Singapore 068898
Dart Energy (Sangatta West) Pte Limited	Investment holding, Singapore	80 Robinson Road, #02-00, Singapore 068898
Dart Energy (Dajing) Pte Limited	Investment holding – dormant, Singapore	80 Robinson Road, #02-00, Singapore 068898
Dart Energy (Vietnam) Holdings Pte Limited	Investment holding – dormant, Singapore	80 Robinson Road, #02-00, Singapore 068898
Dart Energy (India) Holdings Pte Limited	Dormant, Singapore	80 Robinson Road, #02-00, Singapore 068898
Dart Energy Asia Holdings Pte Limited	Dormant, Singapore	80 Robinson Road, #02-00, Singapore 068898
Dart Energy (Hanoi Basin CBM) Pte Limited	Dormant, Singapore	80 Robinson Road, #02-00, Singapore 068898
Dart Energy India (CMN) Pte Limited	Dormant, Singapore	80 Robinson Road, #02-00, Singapore 068898
Dart Energy (CIL) Pte Limited	Dormant, Singapore	80 Robinson Road, #02-00, Singapore 068898
Dart Energy (MG) Pte Limited	Dormant, Singapore	80 Robinson Road, #02-00, Singapore 068898

**3 Property, plant and equipment**

	Year ended 31 December 2016				Nine months ended 31 December 2015			
	Buildings £000	Fixtures, fittings and equipment £000	Motor vehicles £000	Total £000	Buildings £000	Fixtures, fittings and equipment £000	Motor vehicles £000	Total £000
<b>Cost</b>								
At 1 January/1 April	358	136	20	514	358	136	20	514
Additions	17	3	–	20	–	–	–	–
<b>At 31 December</b>	<b>375</b>	<b>139</b>	<b>20</b>	<b>534</b>	<b>358</b>	<b>136</b>	<b>20</b>	<b>514</b>
<b>Depreciation and Impairment</b>								
At 1 January/1 April	182	118	20	320	128	97	20	245
Charge for the year	74	16	–	90	54	21	–	75
<b>At 31 December</b>	<b>256</b>	<b>134</b>	<b>20</b>	<b>410</b>	<b>182</b>	<b>118</b>	<b>20</b>	<b>320</b>
<b>NBV at 31 December</b>	<b>119</b>	<b>5</b>	<b>–</b>	<b>124</b>	<b>176</b>	<b>18</b>	<b>–</b>	<b>194</b>

**4 Trade and other receivables**

	31 December 2016 £000	31 December 2015 £000
Amounts falling due within one year:		
VAT recoverable	192	153
Other debtors	39	29
Amounts due from subsidiary undertakings	38,987	45,667
Prepayments	148	131
	<b>39,366</b>	<b>45,980</b>

Payment terms for balances due from subsidiary undertakings are as mutually agreed between the Group's companies.

The carrying value of each of the Company's financial assets as stated above being other debtors and amounts due from subsidiary undertakings is considered to be a reasonable approximation of its fair value.

# PARENT COMPANY FINANCIAL STATEMENTS – NOTES

## AS AT 31 DECEMBER 2016 CONTINUED

### 5 Cash and cash equivalents

	31 December 2016 £000	31 December 2015 £000
Cash at bank and in hand	21,205	21,105

The carrying value of the Company's cash and cash equivalents as stated above is considered to be a reasonable approximation of their fair value.

Included within cash and cash equivalents is £9.2 million (31 December 2015: £10.3) held in the Debt Service Retention Account ("DSRA") which at the Company's discretion is designated for the buy-back of bonds or for repayment of bonds.

### 6 Trade and other payables

	31 December 2016 £000	31 December 2015 £000
Trade creditors	661	350
Taxation and social security	60	55
Amounts due to subsidiary undertakings	173,129	143,112
Accruals and other creditors	989	703
	174,839	144,220

Payment terms for balances due to subsidiary undertakings are as mutually agreed between the Group's companies.

The carrying value of each of the Company's financial liabilities being trade creditors is considered to be a reasonable approximation of its fair value. All trade creditors are payable within one to two months and no creditor has been outstanding for longer than three months (2015: no longer than three).

### 7 Taxation

Tax losses, none of which are considered sufficiently certain of utilisation to recognise deferred tax assets, amount to:

	Year ended 31 December 2016 £000	Nine months ended 31 December 2015 £000
Excess management expenses	16,533	15,083
Non-trade loan relationship debits	37,551	19,928

Under the current tax law at the balance sheet date, excess management expenses may only be offset against future profits, if any, of the Company generated in its capacity as a Group holding company.

Non-trade loan relationship debits may be offset against future income from similar sources.

## 8 Borrowings

Borrowings are measured at amortised cost in accordance with IAS 39.

	31 December 2016			31 December 2015		
	Within 1 year £000	Greater than 1 year £000	Total £000	Within 1 year £000	Greater than 1 year £000	Total £000
Bonds – secured	6,084	96,700	102,784	4,819	80,125	84,944
Bonds – unsecured	–	21,795	21,795	–	17,935	17,935
<b>Total</b>	<b>6,084</b>	<b>118,495</b>	<b>124,579</b>	<b>4,819</b>	<b>98,060</b>	<b>102,879</b>

In 2013, the Company and Norsk Tillsmann (“Bond Trustee”) entered into a Bond Agreement for the Company to issue up to \$165.0 million secured bonds and up to \$30.0 million unsecured bonds (issued at 96% of par). These bonds were subsequently listed on Oslo Bors and the Alternative bond market in Oslo. During the period to 31 December 2015 the Company amended the terms of the Bond Agreement. The primary changes were in relation to the covenants and the maintenance of financial ratios including the establishment of a DSRA.

Both secured and unsecured bonds carry a coupon of 10% per annum (where interest is payable semi-annually in arrears). Secured bonds are amortised semi-annually at 2.5% of the initial loan amount. Final maturity on the secured notes is on 22 March 2018 and on the unsecured notes is 11 December 2018.

During the year to 31 December 2016, the Company sold a total of 8,000,000 secured bonds resulting in an aggregate loss of £1.5 million (Nine months ended 31 December 2015: repurchased 5,414,747 secured bonds resulting in a combined gain of £0.5 million).

No secured bonds were sold or repurchased during the year to 31 December 2016. During the nine months to 31 December 2015, the Company repurchased a total of 1,600,000 unsecured bonds resulting in an aggregate gain of £0.4 million.

The liability has increased compared to 31 December 2015 reflecting the impact of the decline in the value of sterling against the US dollar.

## 9 Other liabilities

	31 December 2016 £000	31 December 2015 £000
At 1 January/1 April	147	349
Warrants exercised during period/year	–	–
Revaluation gain	(136)	(202)
<b>As at 31 December</b>	<b>11</b>	<b>147</b>

Other liabilities relate to warrants issued pursuant to a warrant instrument dated 14 December 2011. Warrants issued can be exercised in three different ways and, although the cost to the Group would be the same under each exercise option, these warrants do not qualify as equity instruments under IAS 39 due to the variable number of shares that would be issued in each case. Accordingly they have been accounted for as financial liabilities.

All warrants vested on grant and accordingly the key assumptions made in arriving at the Black-Scholes valuations were: share price on date of valuation, adjusted for subsequent consolidations where appropriate and the length of time for which the warrants were expected to remain exercisable. A risk free interest rate of 1.09% and an implied volatility of 35% were used in valuing the warrants at the time of grant, and an interest rate of 0.0001% and an implied volatility of 83.49% at 31 December 2016. It was also assumed that no dividends would be paid during the life of the warrants. The warrants are exercisable on 14 December 2017.

The movement in warrants during the period was as follows:

	No.	Weighted average exercise price (pence)
At 1 April 2015	7,500,000	55.8
Exercised in the year	–	55.8
Outstanding and exercisable at 31 December 2015	7,500,000	55.8
<b>Outstanding and exercisable at 31 December 2016</b>	<b>7,500,000</b>	<b>55.8</b>

During the current year and prior periods, no warrants were exercised, therefore no ordinary shares have been issued.

The weighted average remaining contractual life for the warrants outstanding as at 31 December 2016 is 1.0 years (31 December 2015: 2.0 years).

# PARENT COMPANY FINANCIAL STATEMENTS – NOTES

## AS AT 31 DECEMBER 2016 CONTINUED

### 10 Commitments

At the balance sheet date the Company had outstanding commitments for future minimum lease payments under non-cancellable operating leases as follows:

Operating lease commitments

	Year ended 31 December 2016 £000	Months ended 31 December 2015 £000
- expiring within 1 year	614	521
- expiring within 2 to 5 years	1,320	651
- expiring after 5 years	389	-
Total	2,323	1,172

### 11 Financial instruments and risk management

#### Fair values

The fair value of financial assets and liabilities, together with the carrying amounts shown in the balance sheet, other than those with carrying amounts that are a reasonable approximation of their fair values, are as follows:

	Carrying amount		Fair value	
	31 December 2016 £000	31 December 2015 £000	31 December 2016 £000	31 December 2015 £000
<b>Financial liabilities</b>				
Amortised cost				
Borrowings	124,000	102,879	81,459	60,683

The fair value of borrowings (classified by level 1) have been calculated by reference to quoted market prices for the respective liability.

#### Fair value hierarchy

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;
- Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly, and
- Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

For financial instruments there are no non-recurring fair value measurements nor have there been any transfers between levels of the fair value hierarchy.

The financial assets and liabilities measured at fair value are categorised into the fair value hierarchy as at the reporting dates as follows:

	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
<b>At 31 December 2016</b>				
Warrants	-	11	-	11
<b>Total</b>	-	11	-	11
<b>At 31 December 2015</b>				
Warrants	-	147	-	147
<b>Total</b>	-	147	-	147

The warrants are valued using a Black-Scholes method, which incorporates the inputs as detailed in note 9.

## 11 Financial instruments and risk management continued

### Financial risk management

The Company's principal financial liabilities comprise borrowings, warrants and trade and other payables, including amounts due to subsidiary undertakings. The main purpose of these financial liabilities is to finance the Company's subsidiary operations and to fund acquisitions. The Company has trade and other receivables, and cash and cash equivalents that are derived directly from its operations and restricted cash.

The Company manages its exposure to key financial risks in accordance with its financial risk management policy. The objective of the policy is to support the Company's financial targets while protecting future financial security. The Company is exposed to the following risks:

- Market risk including interest rate, and foreign currency risks;
- Credit risk; and
- Liquidity risk.

Management reviews and agrees policies for managing each of these risks which are summarised below. It is the Company's policy that all transactions involving derivatives must be directly related to the underlying business of the Company. The Company does not use derivative financial instruments for speculative exposures.

### Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market factors, such as interest rate and foreign currency.

The sensitivity analyses below have been prepared on the basis that the amount of net debt, and the proportion of financial instruments in foreign currencies are all constant and that derivatives are held to maturity. The sensitivity analysis is intended to illustrate the sensitivity to changes in market variables on the Company's financial instruments and show the impact on profit or loss and shareholders' equity, where applicable.

### Interest rate risk

The Company's exposure to the risk of changes in market interest rates relates primarily to the Company's loans with related parties. The Company currently has all of its external borrowings at fixed rates of interest.

The following table summarises the impact on profit before tax for changes in interest rates on the fair value of the loans to related parties.

	Increase/(decrease) in profit before tax for the year/period ended and to equivalent	
	31 December 2016 £000	31 December 2015 £000
50 basis point increase in LIBOR	388	388
50 basis point decrease in LIBOR	(388)	(388)

### Foreign currency risk

The Company has transactional currency exposures. Such exposure arises from purchases in currencies other than the UK pound sterling, the functional currency of the Company. The Company's borrowings are also denominated in US dollars.

The following table summarises the impact on profit before tax for changes in the US dollar/UK pound sterling exchange rate on financial assets and liabilities as at the year end, principally relating to the Group's borrowings which are denominated in US dollars. The impact on equity is the same as the impact on profit before tax.

The analysis is based on the assumption that the pound moves 10%, with all other variables held constant.

	Increase/(decrease) in profit before tax for the year/period ended and to equivalent	
	31 December 2016 £000	31 December 2015 £000
10% strengthening of the pound against the US dollar	10,033	8,243
10% weakening of the pound against the US dollar	(10,033)	(9,867)

# PARENT COMPANY FINANCIAL STATEMENTS – NOTES

## AS AT 31 DECEMBER 2016 CONTINUED

### 11 Financial instruments and risk management continued

#### Credit risk

With respect to credit risk arising from the financial assets of the Company, which comprise cash and cash equivalents and amounts due from subsidiary undertakings, the Company's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments. The credit risk on amounts due from subsidiary undertakings is limited as these are assessed for impairment whenever events or changes in circumstances indicate that they may not be recoverable. The Company limits its counterparty credit risk on cash and cash equivalents by dealing only with financial institutions with credit ratings of at least A or equivalent other than if the UK government is a majority shareholder. £20.1 million (31 December 2015: £20.5 million) of cash and cash equivalents were held with two institutions.

#### Liquidity risk

The Company manages liquidity risk by maintaining adequate banking and borrowing facilities by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities and future capital and operating commitments.

The table below summarises the maturity profile of the Company's financial liabilities based on contractual undiscounted payments.

	On demand £'000	< 1 year £'000	1 - 2 years £'000	2 - 3 years £'000	3+ years £'000	Total £'000
<b>At 31 December 2016</b>						
Borrowings	–	18,582	122,314	–	–	140,896
Trade and other payables	–	661	–	–	–	661
Warrants	–	11	–	–	–	11
	–	19,254	122,314	–	–	141,568
<b>At 31 December 2015</b>						
Borrowings	–	15,591	14,784	99,664	–	130,039
Trade and other payables	–	350	–	–	–	350
Warrants	–	147	–	–	–	147
	–	16,088	14,784	99,664	–	130,536

Management considers that the Company has adequate current assets and forecast cash from operations to manage liquidity risks arising from current liabilities and non-current liabilities.

#### Capital management

The Company manages its capital to ensure that it remains sufficiently funded to support its business strategy and maximise shareholder value. The Company's funding needs are met through a combination of debt and adjustments made in light of changes in economic conditions. The Company's strategy is to maintain ratios in line with covenants associated with the issued bonds.

The Company monitors capital using a gearing ratio, which is net debt divided by equity plus net debt. The Company includes within net debt, interest bearing bank loans less cash and cash equivalents and restricted cash. Capital includes share capital, share premium, other reserves and accumulated losses.

## 12 Share capital

	Ordinary shares Nominal value £100	
	£	Number
Issued and fully paid		
1 April 2015, ordinary shares of 10p each	296,924,562	29,692
22 April 2015 shares issued at a price of 28.25p each	479,160	48
23 July 2015 shares issued at a price of 25p each	333,436	33
22 October 2015 shares issued at a price of 22p each	512,930	51
22 October 2015 shares issued at a price of 22p each *	573,576	58
31 December 2015, ordinary shares of 10p each	298,823,664	29,882
22 January 2016 shares issued at a price of 14.25p each	757,096	76
22 April 2016 shares issued at a price of 14.5p each	480,792	48
1 May 2016 shares issued at a price of 15.66p each (note 15)	1,767,220	177
22 July 2016 shares issued at a price of 11.75p each	507,582	50
24 October 2016 shares issued at a price of 12.5p each	489,224	49
<b>31 December 2016, ordinary shares of 10p each</b>	<b>302,820,578</b>	<b>30,282</b>

\* Linked in connection with the IGL's Share-out

## 13 Share premium and capital redemption reserve account

### Share premium account

The share premium account arises from the Company issuing shares for consideration in excess of their nominal value less the costs of such issues. During the year, the Company issued 3,996,914 ordinary shares at a nominal value of 10p each (Nine months ended 31 December 2015: 1,899,102 shares issued) resulting in an increase in the share premium reserve of £0.18 million (31 December 2015: £0.3 million) – see note 12. There were no issuing costs (31 December 2015: £nil).

The capital redemption reserve was created during the year ended 31 March 2013 when the Company repurchased 100% of its outstanding deferred shares which had been issued with a nominal value of 40p each. The deferred shares were subsequently cancelled by the Company resulting in a reduction in share capital and a corresponding recognition of a capital redemption reserve of £64.8 million.

In May 2016, a special resolution was passed approving a reduction of the Company's capital by way of the cancellation of the balance on the Company's share premium account and capital redemption reserve at that date, thereby eliminating the deficit on retained earnings and creating distributable reserves.

## 14 Merger reserve

The merger reserve arose as a result of a reverse acquisition on 31 December 2007 whereby Island Gas Limited ("IGL") became a wholly owned subsidiary of the Company but with IGL's shareholders acquiring 94% of the ordinary share capital of the Company. The reserve represents the difference in the fair value and the nominal value of the shares issued. The reserve is not distributable.



# PARENT COMPANY FINANCIAL STATEMENTS – NOTES

## AS AT 31 DECEMBER 2016 CONTINUED

### 15 Other reserves

Other reserves are as follows

	Warrant/share plan reserves £'000	Treasury shares £'000	Capital contributions £'000	Special reserves £'000	Other £'000
Balance 1 April 2015	3,202	(1,985)	47	-	1,264
Employee share plans – cost under IFRS 2	1,344	-	-	-	1,344
Forfeiture of LTIPs under the employee share plan	(1,000)	-	-	-	(1,000)
Lapse of LTIPs under the employee share plan	(286)	-	-	-	(286)
Balance 31 December 2015	3,260	(1,985)	47	-	1,322
Employee share plans – cost under IFRS 2	5,225	-	-	-	5,225
Employee share plans – shares issued under the SIP	-	119	-	-	119
Forfeiture of LTIPs under the employee share plan	(131)	-	-	-	(131)
Shares released from the Trust due to exercise of options	(14)	14	-	-	-
Transfers	(202)	202	-	-	-
<b>Balance 31 December 2016</b>	<b>8,138</b>	<b>(1,650)</b>	<b>47</b>	<b>-</b>	<b>6,535</b>

### Employee share plans – equity settled

Details of the share options under employee share plans outstanding are as follows

	EIP		MRP		LDRP		SIP		VLP	
	Number of units	Weighted average exercise price (pence)	Number of units	Weighted average exercise price (pence)	Number of units	Weighted average exercise price (pence)	Number of units	Weighted average exercise price (pence)	Number of units	Weighted average exercise price (pence)
Outstanding at 1 April 2015	-	-	-	-	-	-	3,850,253	-	60	-
Exercisable at 1 April 2015	-	-	-	-	-	-	-	-	-	-
Granted during the period	-	-	7,143,610	-	6,500,000	-	1,809,296	-	-	-
Cancelled during the period	-	-	-	-	-	-	(2,085,941)	-	(42)	-
Forfeited during the period	-	-	-	-	-	-	(1,730,308)	-	(38)	-
Outstanding at 31 December 2015	-	-	7,143,610	-	6,500,000	-	1,843,300	-	-	-
Exercisable at 31 December 2015	-	-	-	-	-	-	-	-	-	-
Granted during the year	7,548,701	-	2,865,290	-	-	-	-	-	-	-
Forfeited during the year	(452,358)	-	(538,086)	-	-	-	(1,416)	-	-	-
<b>Outstanding at</b>										
<b>31 December 2016</b>	<b>7,096,343</b>	<b>-</b>	<b>9,470,814</b>	<b>-</b>	<b>6,500,000</b>	<b>-</b>	<b>1,841,884</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Exercisable at</b>										
<b>31 December 2016</b>	<b>-</b>	<b>-</b>	<b>9,470,814</b>	<b>-</b>	<b>6,500,000</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

### Executive Incentive Plan ("EIP")

In March 2016, the Group issued 7,548,701 options under a long term incentive plan to the Executive Directors of the Company and certain other key employees of the Group which will vest, subject to meeting certain criteria, three years from grant.

The options granted under the Plan take the form of a base award. The number of ordinary shares over which the options vest may be increased by a multiple of up to two times the number of ordinary shares subject to the base award, if a specified ordinary share price is met at the vesting date.

The fair value of the awards is based on the Monte Carlo valuation model. The key inputs into the model were: share price as of date of grant of £0.145, a risk free interest rate of 0.52% and an implied share price volatility of 8.8%. It was also assumed that no options would be forfeited and no dividends would be paid during the life of the options. This resulted in a fair value of EIP awards of £1.4 million.

The EIPs outstanding at 31 December 2016 had both a weighted average remaining contractual life and maximum term remaining of 9.3 years.

The total charge for the period was £0.34 million. Of this amount, £0.10 million was capitalised and £0.24 million was charged to the Income Statement.

**15 Other reserves continued****Management Retention Plan (“MRP”)**

In December 2015, the Group adopted a new share-based payment scheme, the Management Retention Plan (“MRP”). Under the MRP, participants are granted nil cost options which vest and become exercisable on the first anniversary of grant subject to the Directors’ continued employment and to a one year holding period following the date of vesting.

Employees were granted 7,145,610 options in the MRP in lieu of waived options granted under the 2011 Long Term Incentive Plan (“LTIP”) and 2015 cash bonuses. The options designated by the Group as replacement awards were accounted for as a modification of the original scheme and were valued at grant date and the options awarded in lieu of cash bonuses were measured with reference to the fair value of the services received.

The fair value of the cancelled awards was re-measured at the replacement date based on the Monte Carlo valuation model. The key inputs into the model were: replacement date share price of £0.14, threshold price of between £1.351 and £1.664, a risk free interest rate of between 0.37% and 0.42% and an implied share price volatility of between 73% and 86%. It was also assumed that no dividends would be paid during the life of the options. This resulted in an incremental fair value of £0.17 million.

The MRPs outstanding at 31 December 2016 had both a weighted average remaining contractual life and maximum term remaining of 6.9 years (31 December 2015: 7.9 years). The fair value of the replacement awards granted under the MRP was the grant date share price.

The total charge for the period was £1.8 million (Nine months ended 31 December 2015: £0.14 million). Of this amount, £0.6 million (31 December 2015: £0.138 million) was capitalised or recharged to joint venture partners and £1.2 million (31 December 2015: £0.002 million) was charged to the Income Statement.

**Executive Director Retention Plan (“EDRP”)**

In July 2015, the Group adopted a new share-based payment scheme, the Executive Director Retention Plan (“EDRP”). Under the EDRP, participants are granted nil cost options which vest and become exercisable on the first anniversary of grant subject to the Directors’ continued employment and to a one year holding period following the date of vesting.

Executives were granted 6,500,000 options in the EDRP in lieu of waived options granted under the 2011 Long Term Incentive Plan (“LTIP”) and the Value Creation Plan (“VCP”). The options have been designated by the Group as replacement awards at grant date and were accounted for as a modification of the original scheme.

The fair value of the cancelled awards was re-measured at the replacement date based on the Monte Carlo valuation model. The fair value of waived options was based on the share price at grant date of £0.2475. The fair value of replacement awards was based on the Monte Carlo valuation model. The key inputs into the model were: replacement date share price of £0.2475, threshold price of between £0.945 and £1.664, a risk free interest rate of between 0.49% and 0.60% and an implied share price volatility of between 70% and 78%. It was also assumed that no dividends would be paid during the life of the options. This resulted in an incremental fair value of £1.5 million.

The EDRPs outstanding at 31 December 2016 had both a weighted average remaining contractual life and maximum term remaining of 6.5 years (31 December 2015: 7.5 years). The fair value of the replacement awards granted under the EDRP was the grant date share price.

The total charge for the year was £0.80 million (Nine months ended 31 December 2015: £0.7 million). Of this amount, £0.47 million was capitalised (31 December 2015: £0.6 million) and £0.33 million was charged to the Income Statement (31 December 2015: £0.1 million).

**Long Term Incentive Plan 2011 (“2011 LTIP”)**

In November 2011 the Company adopted a Long Term Incentive Plan scheme for certain key employees of the Group. Under the LTIP, participants can each be granted nil cost options over up to 300% of remuneration for the Initial Award and up to 150% of remuneration for the Annual Award (subject to an overall plan limit of 10% of the issued share capital of the Company for all participants). The LTIP has a three year performance period and awards vest subject to share price performance exceeding the Company’s weighted average cost of capital of 10%. On a change of control prior to the third anniversary of the grant date, a proportion of the options that vest will take into account items such as the time the Option has been held by the participant and the performance achieved in the period from the grant date. Other than on a change of control, 100% of vested awards can be exercised and sold on vesting.

There were no LTIPs exercised during the year. The LTIPs outstanding at 31 December 2016 had both a weighted average remaining contractual life and maximum term remaining of 8.9 years (31 December 2015: 9.9 years). The fair value of the awards granted under the plan are measured at grant date using a Monte Carlo Simulation Model.

# PARENT COMPANY FINANCIAL STATEMENTS – NOTES

## AS AT 31 DECEMBER 2016 CONTINUED

### 15 Other reserves continued

#### Long Term Incentive Plan 2011 (“2011 LTIP”) continued

The total charge for the year was £0.40 million (Nine months ended 31 December 2015: £0.19 million). Of this amount, £0.38 million was capitalised (31 December 2015: £0.21 million) and £0.02 million was charged to the Income Statement (31 December 2015: £0.02 million credited to the Income Statement).

During the period to 31 December 2015, the Company undertook a restructuring programme. The share options and units previously granted to employees under 2011 LTIP have been forfeited, none of which having vested or become exercisable prior to this date due to the termination of employment. This resulted in a release of price charges under IFRS 2 – credit to the income statement of £0.089 million, credit against exploration and evaluation assets of £0.069 million and a charge to other reserves of £0.158 million.

#### Value Creation Plan (“2014 VCP”)

In July 2014, the Company adopted the IGas 2014 Value Creation Plan (“VCP”). Under the VCP, performance units will be granted which convert into a certain number of shares at the end of a three year performance period. The VCP requires creation of shareholder value in excess of a threshold hurdle of 10% annualised share price growth from 1 April 2014. If this hurdle is met at the end of the performance period, participants will receive in aggregate 12.5% of the shareholder value created above the hurdle. 50% of this value will vest in shares of equivalent value at end of the performance period and 25% at the end of each of the following two years. The awards granted under the VCP scheme are measured at grant date using a Monte Carlo Simulation Model.

For the VCP, when significant additional capital is raised (more than 10% of the Company's issued share capital) following the grant date, a separate tranche of the VCP awards is created with its own threshold price and share capital. Therefore any additional shares issued will have to be considered separately in determining the VCP accounting expense for periods following this capital event.

The total charge for the year was £1.76 million (Nine months ended 31 December 2015: £0.70 million). Of this amount, £1.10 million was capitalised (31 December 2015: £0.44 million) and £0.66 million was charged to the Income Statement (31 December 2015: £0.26 million).

During the period to 31 December 2015, the Company undertook a restructuring programme. The share options and units previously granted to employees under 2011 VCP have been forfeited, none of which having vested or become exercisable prior to this date due to the termination of employment. This resulted in a release of price charges under IFRS 2 – credit to the income statement of £0.39 million, credit against exploration and evaluation assets of £0.45 million and a charge to other reserves of £0.84 million.

The VCP was replaced by the EDPP in its entirety.

The inputs into the Monte Carlo models were as follows:

	2011 LTIP				VCP
	Granted Jan 11	Granted Jan 12	Granted Sep 13	Granted Jul 14	Granted Jul 14 (pre-capital issue) acquired Oct 14
Share price on grant	50.5p	66.5p	102.0p	112.0p	75.0p
Exercise price	Nil	Nil	Nil	Nil	Nil
Expected volatility	35%	51%	43%	47%	47%
Expected life	6.5 years	6.5 years	6.5 years	2.7 years	2.5 years
Risk-free rate	0.70%	0.35%	0.85%	1.28%	0.80%
Expected dividends	0%	0%	0%	0%	0%
Weighted average fair value of awards/units granted	23.12p	26.72p	50.90p	51.55p	f64,989
					f22,447

**15 Other reserves continued****Other share based payments****Share Incentive Plan ("SIP")**

In 2013, the Company adopted an HMRC approved Share Investment Plan ("SIP") for all employees of the Group. The scheme is a tax efficient incentive plan pursuant to which all employees are eligible to acquire up to £125 (or 1% of salary, if less) worth of IGas ordinary shares per month or £1,500 per annum. Under the SIP employees are invited to make contributions to buy partnership shares. If an employee agrees to buy partnership shares the Company currently matches the number of partnership shares bought with an award of shares (matching shares), on a one-for-one or two-for-one basis.

The total charge for the year was £0.27 million (Nine months ended 31 December 2015: £0.2 million). Of this amount, £0.263 million was capitalised (31 December 2015: £0.2 million) and £0.007 million was charged to the income statement (31 December 2015: £nil million).

**Other**

In May 2016, the Group issued 1,767,220 ordinary shares with a fair value of £0.28 million to Ephindo International CBM Holdings Inc as a part payment for the acquisition of Sangatta West CBM Inc.

**Treasury shares**

The Treasury shares of the Company have arisen in connection with the shares issued to the IGas Energy Employee Benefit Trust ("the Trust"), of which the Company is the sponsoring entity. The value of such shares is recorded in the share capital and share premium accounts in the ordinary way and is also shown as a deduction from equity in this separate reserve account. There is therefore no net effect on shareholders' funds.

During the year ended to 31 December 2016 there were no shares issued to the Trust (Nine months ended 31 December 2015: nil). However, 246,720 ordinary shares of 10p each in the capital of the Company were released from the Trust on exercise of share options by former employees.

**Capital contribution**

The capital contribution relates to cash received following the acquisition of IGAS Exploration UK Limited.

**16 Related party transactions****(a) With Group companies**

A summary of the transactions in the year is as follows:

	Year ended 31 December 2016 £000	Nine months ended 31 December 2015 £000
<b>Amounts due from/(to) subsidiaries:</b>		
Balance at beginning of year/period	102,043	119,158
Services performed (for)/by subsidiary	437	2,887
Net cash advances	(14,808)	(27,619)
Group loan interest	13,358	8,956
Impairment	(9,122)	-
Revaluations	(16,048)	(1,239)
Balance at end of year/period	75,860	102,043
	Year ended 31 December 2016 £000	Nine months ended 31 December 2015 £000
Amounts due from subsidiary undertakings	38,987	45,667
Amounts due to subsidiary undertakings	(173,129)	(143,112)
Loans to Group companies	210,002	199,488
Total	75,860	102,043

Payment terms for balances due to or from subsidiaries are as mutually agreed between the Group's companies. The payment terms in respect of loans are detailed in note 2.

# PARENT COMPANY FINANCIAL STATEMENTS – NOTES

## AS AT 31 DECEMBER 2016 CONTINUED

### 16 Related party transactions continued

#### (b) With Directors

Key management as defined by IAS 24 – Related Party Disclosures are those persons having authority and responsibility for planning, controlling and directing the activities of the Company. In the opinion of the Board, the Company's key management are the Directors of the Company. Information regarding their compensation is given in the Directors' Remuneration Report.

At 31 December 2016, C McDowell held US\$0.25 million (31 December 2015: US\$0.26 million) of secured bonds issued by the Group. The bonds earn interest at 10% per annum. During the year ended 31 December 2016, the interest paid was US\$0.03 million (Nine months ended 31 December 2015: US\$0.03 million). Accrued interest at 31 December 2016 amounted to US\$6.9 thousand (31 December 2015: US\$7.3 thousand). On 4 April, C McDowell elected to participate fully in the voluntary debt for equity swap on his secured bond holding which resulted in an allotment of 4,383,441 shares.

### 17 Subsequent events

#### Issued shares

On 30 January 2017, the Company issued 484,956 Ordinary 10p shares in relation to the Group's SIP scheme. On 4 May 2017, the Company issued 956,464 Ordinary 0.0001p shares in relation to the Group's SIP scheme.

#### Capital restructure

During the year, the Company disclosed that it expected to be non-compliant with its leverage covenants under its secured bond agreement at 31 December 2016 and that it also expected to breach its daily liquidity covenant in late March 2017. The Company therefore engaged in discussions with its bondholders, a strategic investor and other potential investors and stakeholders with regard to possible restructuring options in order to provide a remedy to the expected breach and achieve a capital structure that would be sustainable in the current oil price environment. In March 2017, the Company announced final terms of the restructuring and fundraising package which were subsequently approved at the meetings of the Company's secured and unsecured bondholders and at the general meeting of shareholders on 3 April 2017. In addition, the shareholders approved the subdivision of each of the 303,305,534 ordinary shares of 10p each of the Company into one new ordinary share of 0.0001p each and one deferred share of 9.9999p each.

On 4 April 2017, the Company announced that all new ordinary shares issued in accordance with the terms of the fundraising were admitted to trading and, as a result, the restructuring of the Company's secured bonds and unsecured bonds and the fundraising had become effective in accordance with their respective terms. The principal terms are set out below:

- 679,282,165 new ordinary shares were issued to Unconventional Energy Limited, an affiliate of Kerogen Capital, pursuant to a subscription agreement (including 40,030,273 new ordinary shares at nominal value pursuant to a top-up mechanism) raising £28.77 million and giving Unconventional Energy Limited an interest of 28% in the Company.
- 400,069,644 new ordinary shares were issued pursuant to a placing, open offer and ancillary subscription raising £18.04 million.
- 528,175,031 new ordinary shares were issued to holders of secured bonds who accepted voluntary equity exchange of secured bonds extinguishing \$28.92 million (£23.78 million) in face value of the secured bonds.
- 202,398,542 new ordinary shares were issued to holders of secured bonds pursuant to a conditional secured debt for equity swap extinguishing a further \$11.08 million (£9.11 million) in face value of the secured bonds.
- c. \$49.2 million (£40.4 million) in face value of secured bonds were cancelled in consideration for c. \$49.2 million (£40.4 million) cash pursuant to a voluntary cash offer.
- 312,776,818 new ordinary shares were issued to holders of unsecured bonds on the conversion of all unsecured bonds into equity extinguishing \$27.4 million (£22.5 million) in face value, being all of the unsecured bonds not held by the Company.
- The Company cancelled \$13.09 million (£10.7 million) in face value of the secured bonds and unsecured bonds held by the Company, being all of the unsecured bonds and secured bonds held by the Company.
- The renegotiated terms and conditions and covenants for the remaining secured bonds (total aggregate face value of c. \$30.08 million) came into effect upon admission.
- The new ordinary shares were issued at a price of 4.5p per share.

# OIL AND GAS RESERVES AS AT 31 DECEMBER 2016

The Group's estimate of proved plus probable reserves at 31 December 2016 are based on an independent evaluation of IGas conventional oil and gas interests as of 31 July 2016, as prepared by DeGolyer & MacNaughton ("D&M"), the leading international reserves and resources auditors, and as adjusted for the production for the period from 1 August 2016 to 31 December 2016. Proved reserves are estimated reserves that geological and engineering data demonstrate with reasonable certainty to be recoverable in future years under existing economic and operating conditions, while probable reserves are estimated reserves determined to be more likely than not to be recoverable in future years under existing economic and operating conditions.

All of the Group's oil and gas assets are located in the United Kingdom.

## Group proved plus probable reserves

	Oil (mboe)	Gas (bct)	Total (mboe)
At 1 January 2016	12.62	4.10	13.33
Additions during the period	—	—	—
Revision of previous estimates	0.88	0.02	0.89
Production	(0.81)	(0.17)	(0.85)
Total change during the period	0.07	(0.15)	0.04
<b>At 31 December 2016</b>	<b>12.69</b>	<b>3.95</b>	<b>13.37</b>

STRATEGIC REPORT

CORPORATE GOVERNANCE

FINANCIAL STATEMENTS

# IGAS ONSHORE UK LICENCE INTERESTS

## East Midlands

AI 009	Dunholme <sup>1</sup>	9	100%	IGas
EXL288	Trumfleet	75	75%	IGas INEOS
ML3	Egmanton	26	100%	IGas
ML4	Gainsborough, Beckingham, Corringham, Glentworth	72	100%	IGas
ML6	Bothamsall	5	100%	IGas
ML7	South Leverton	1	100%	IGas
PFDL006	Cold Hanworth	136	100%	IGas
PFDL012		33	55%	IGas INEOS
PFDL139		100	32%	IGas Total, Egdon, Ecorp
PFDL140		142	32%	IGas Total, Egdon, Ecorp
PFDL146		276	75%	IGas INEOS
PFDL169 <sup>2</sup>		62	60%	IGas Egdon
PFDL200		114	55%	IGas INEOS
PFDL210	Hemswell <sup>1</sup>	116	75%	IGas INEOS
PFDL273 <sup>4</sup>		194	35%	IGas Total, Egdon
PFDL305		143	35%	IGas Total, Egdon
PFDL316		111	35%	IGas Total, Egdon
PFDL317	Hemswell <sup>1</sup>	39	100%	IGas
PFDL337	Beckering	10	100%	IGas
PL162 <sup>5</sup>		42	100%	IGas
PL178	West Beckingham	2	100%	IGas
PL179	Welton, Stainton, Nettleham, Scampton South, Scampton North, East Glentworth	107	100%	IGas
PL199 <sup>6</sup>	Nettleham	4	100%	IGas
PL220	Long Clawson, Rempstone	13	100%	IGas

## Weald Basin

DL002	Stockbridge	11	100%	IGas
DL004	Albury	14	100%	IGas
ML18	Bletchingley	8	100%	IGas
ML21	Bletchingley	9	100%	IGas
PFDL021	Goodworth	50	100%	IGas
PFDL070	Avington	18	50%	IGas Egdon, Aurora, UKOG, Brigantes, Corfe
PFDL233	Baxters Copse <sup>1</sup>	90	50%	IGas UKOG
PFDL235	Godley Bridge	100	100%	IGas
PFDL257	Longfield <sup>1</sup>	28	100%	IGas
PFDL326		9%	100%	IGas
PL182	Palmer's Wood	5%	100%	IGas
PL205	Storrington	18	100%	IGas
PL211	Horncean	27	30%	IGas UKOG
PL233	Stockbridge	59	100%	IGas
PL240	Singleton	71	100%	IGas
PL249	Stockbridge	16	100%	IGas

**North West**

FX 1273		48	15%	INEOS	INEOS
PEDL156	The Potteries <sup>7</sup>	2	100%	IGas	
PEDL145	Doc Green <sup>8</sup>	74	40%	INEOS	
PEDL147		89	25%	IGas	INEOS
PEDL184		286	50%	IGas	INEOS
PEDL188		100	75%	IGas	INEOS
PEDL189		100	25%	IGas	INEOS
PEDL190		94	50%	IGas	INEOS
PEDL193		296	40%	INEOS	
PEDL293		700	30%	INEOS	INEOS
PEDL295		200	30%	INEOS	INEOS

**Scotland**

FX1270	Lybster <sup>9</sup>	16	100%	IGas	
PEDL158	Lybster <sup>9</sup>	46	100%	IGas	
PEDL163		80	100%	IGas	

**Notes**

1. Cornhill, Hemswell, Breckmole, Albury, Baxter, Lonsdale, Corley Bridge and Longhills are undeveloped fields.

2. Whifflet field was abandoned in 2019 prior to lease acquisition and interest in licenses FX 1258.

3. PEDL156 once owned by CMM operators operated by Alkermid until its abandonment.

4. PEDL145 licence area has a CMM venting operated by Alkermid under PEDL147 and PEDL149, with no IGas interest.

5. PEDL184 licence area includes the Hatfield Moor Gas Storage Facility operated by Shell and owned by IGas interest.

6. PEDL189 also includes Whistley field operated by Shell and owned by IGas interest.

7. The Potteries is an undeveloped field with a well and abandoned gas flow.

8. Doc Green is a plot 15M project.

9. Lybster field is located in Scotland and is operated by the surface facilities contributed to it by PEDL158.



# GLOSSARY

£	The lawful currency of the United Kingdom
\$	The lawful currency of the United States of America
1P	Low estimate of commercially recoverable reserves
2P	Best estimate of commercially recoverable reserves
3P	High estimate of commercially recoverable reserves
1C	Low estimate or low case of Contingent Recoverable Resource quantity
2C	Best estimate or mid. case of Contingent Recoverable Resource quantity
3C	High estimate or high case of Contingent Recoverable Resource quantity
AIM	AIM market of the London Stock Exchange
boepd	Barrels of oil equivalent per day
bopd	Barrels of oil per day
Contingent Recoverable Resources	Contingent Recoverable Resources estimates are prepared in accordance with the Petroleum Resources Management System ("PRMS"), an industry recognised standard. A Contingent Recoverable Resource is defined as discovered potentially recoverable quantities of hydrocarbons where there is no current certainty that it will be commercially viable to produce any portion of the contingent resources evaluated. Contingent Recoverable Resources are further divided into three status groups: marginal, sub-marginal, and undetermined. IGas' Contingent Recoverable Resources all fall into the undetermined group. Undetermined is the status group where it is considered premature to clearly define the ultimate chance of commerciality.
Drill or drop	A drill or drop well carries no commitment to drill. The decision whether or not to drill the well rests entirely with the licensee being driven by the results of geotechnical analysis. The licence will, however, still expire at the end of the initial term if the well has not been drilled.
Firm well	A firm well is classified as a firm commitment to drill a well. It is not contingent on any further geotechnical evaluation (i.e. it is a fully evaluated prospect).
GIIP	Gas initially in place
MMboe	Millions of barrels of oil equivalent
MMscfd	Millions of standard cubic feet per day
PiDL	United Kingdom petroleum exploration and development licence
PL	Production licence
Tcf	Trillions of standard cubic feet of gas
UK	United Kingdom