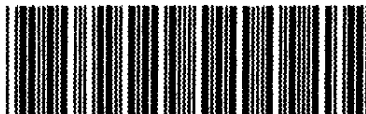


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COMPANIES HOUSE  


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COMPANIES HOUSE

Securing your  
energy with care

REPORT AND ACCOUNTS 2017

## WELCOME

# Securing Britain's energy with care

## WHO WE ARE

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

## OUR VALUES

Our values guide our behaviour, they shape and direct how we go about our work. They represent the foundations of our business and are embedded in everything we do.

## OUR STRATEGY

Reserves and  
production growth

Developing shale  
portfolio

Local and national  
engagement

Respect

Performance

Collaboration

Commitment

Transparency

Read more about our values on page 31

## FINANCIAL PERFORMANCE

Revenues		Net debt <sup>1</sup>		Profit/(loss) after tax		Cash and cash equivalents	
£35.8m		£6.2m		£15.5m		£15.7m	
2017	£35.8m	2017	£6.2m	2017	£15.5m	2017	£15.7m
2016	£30.5m	2016	£99.7m	2016	£(32.9m)	2016	£24.9m

<sup>1</sup> Net debt is borrowings less cash and cash equivalents excluding capitalised fees.

<sup>2</sup> Adjusted EBITDA is earnings before net finance costs, tax credit, depletion, depreciation and amortisation and impairments.

<sup>3</sup> Underlying operating profit excludes gains on oil price derivatives, charges under share based payments, and impairments.

Our purpose is to provide a secure supply of energy onshore in Britain both safely and environmentally responsibly and in collaboration with the communities in which we operate.

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Net assets		Adjusted EBITDA <sup>2</sup>		Net cash from operating activities		Underlying operating profit <sup>3</sup>	
£181.6m		£9.2m		£6.7m		£1.3m	
2017	£181.6m	2017	£9.2m	2017	£6.7m	2017	£1.3m
2016	£70.5m	2016	£10.2m	2016	£12.4m	2016	£3.7m

# Strong platform created for future growth

# 1 Strategic Report

This section of the report addresses our activity throughout the year, our delivery against our strategic objectives and our engagement with our stakeholders, including the local communities where we operate.

## Strategic Report

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# OUR INVESTMENT PROPOSITION SIGNIFICANT OPERATIONAL UPSIDE

Financial resilience  
– cash generative

Experienced UK operator  
of producing fields  
which is transferable  
to shale appraisal and  
development

Significant value creation  
opportunities across the  
business

Substantial expertise  
and evaluation work  
undertaken, leading  
to opportunities from  
existing acreage

Existing sites

Incremental production at low  
marginal cost

>100%

2P conventional reserves replacement of  
over 100% in 2017

C

C

High leverage to  
oil price – existing  
infrastructure with  
near term upside

C S

Production assets (conventional)

S Shale assets

C Conventional assets

Development assets (shale)

## Primary recovery only

Upside identified through water injection and infill drilling

C

## Dual targets

Number of existing producing fields where shale potential underlays producing horizon

**Potential for development**

C S

## Operating capability

**Stable production**

28 fields

100 producing wells

Majority of fields 100% owned and operated

C S

## c.\$240m

**Significant carried work programme**

Up to c.\$240m with INEOS as at 31 December 2017

Focus on high impact areas

S

## Significant market position

**Significant acreage**

c.1m gross acres across key basins in the UK

D&M shale gas net risked perspective resources of 2.5 Tcf (c.440 mmboe)

S

## Existing infrastructure benefits accelerated shale development

S

# SOURCES AND USES OF GAS

## AN INTEGRAL PART OF INFRASTRUCTURE

### The growing importance of domestic energy supply

#### Where we use natural 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 food production and even solar panels.

# 50%

of our gas is currently imported

#### Market demand

Annual usage for gas power generation has been increasing as we reduce coal dependency.

# 40%

of UK primary energy was derived from natural gas in 2016

#### Electric vehicles

While renewable sources are increasingly producing more of a share of our electricity, gas still provides nearly half. All forecasts have gas in the energy mix for decades to come.

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 [www.gridwatch.templar.co.uk](http://www.gridwatch.templar.co.uk) which gives live information on how we are generating our electricity.

Read more on the marketplace on p14



**Electricity**

**Manufacturing**

**Recycling**

**Transport**

**Heating  
and cooking**

**Food production**

# CHAIRMAN'S STATEMENT

## SAFE AND RESPONSIBLE PROGRESSION

We are conscious of the significant responsibility we have not just to our shareholders and colleagues but also to the communities in which we operate and the partners that we work with.

### Introduction

This is my first Annual Report as Chairman and I am pleased that the Company is now both financially stronger and at a very exciting point in its operational evolution. 2017 was a year of significant change at IGas. A major financial restructuring was successfully completed and, as part of that process, we attracted a new strategic investor in Kerogen Capital, who specialise in the oil and gas sector. Alongside the refinancing, we changed the composition of the Board, and implemented cost savings, particularly at head office, in order to be well positioned for the future.

The second half of the year brought a more stable and increasing oil price and momentum not only across the different facets of our business but across the wider UK onshore industry. We are generating operating cash flow and production levels are stable at 2,300 boepd. We have a committed carried work programme of up to c.\$240 million with our key partner INEOS, to develop our shale assets, and have commenced work on a number of projects within our conventional production assets that we were able to progress following the refinancing.

As we start another year, I find myself questioning how is the UK going to continue to meet the significant national demand for gas? Gas heats 8 out of 10 homes, produces nearly half of our electricity and is used as a vital feedstock by British industry. In December 2017, three separate events caused a European gas shortage and subsequent price spike, with Middle Eastern and Russian LNG suppliers assigning tankers to meet demand.

There may be plenty of gas that can be imported from around the world but that comes at a cost, not just a high financial one but imports have a higher carbon footprint and we cannot control employment and environmental policies and regulations in other jurisdictions. If we develop our own home-grown supply, we can maximise both the economic and environmental opportunities that come with it and have more security of supply.

Our businesses have been operating onshore in the UK for more than three decades and we are conscious of the significant responsibility we have not just to our shareholders and colleagues, but to the communities in which we operate and the partners with whom we work. Much of our workforce live in and around the communities where we operate and understand what it means to be a responsible neighbour. Our focus on health, safety and the environment continues to be a key priority across the business.

Our Community Fund is now in its tenth year and we are proud of the work we have done to support local communities across our portfolio, investing almost £1 million in numerous projects that are both meaningful and sustainable to local residents. We will continue making these important donations whilst endeavouring to engender trust within the communities in which we operate.

In June 2017, Francis Gugen, who had been Chairman of the Company since it was founded, retired from the Board. I would like to thank Francis for his pivotal role in establishing IGas as one of the leading onshore oil and gas operators and we all wish him well for the future. John Bryant, Senior Independent Non-executive Director, also retired from the Board in June 2017, having served on the Board for nine years. I would like to thank John for his significant contribution to the Company.

Following the successful completion of the refinancing in April 2017, two directors from Kerogen Capital, Philip Jackson and Tushar Kumar, joined the Board as Non-executive Directors. In addition, John Blaymires and Julian Tedder resigned from the plc Board but remain directors of the operating companies and continue to fulfil their executive roles.

In particular, I am grateful to the IGas leadership team for their energy and dedication in steering the business through a complicated restructuring and successful capital raise.

I want it to be recognised how hard our colleagues have worked during the past year and thank them for their commitment and resilience through challenging times and I would also like to thank our shareholders for their continued support.

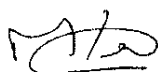
### Outlook

The last couple of years have been challenging both for IGas and the industry as a whole, but with the appropriate steps having been taken by the Company and the more stable commodity price outlook, IGas is now well set for the next period of its growth.

While we remain focused on maintaining a solid operating performance, we have also allocated some capital to deploy in growth projects across our conventional assets and will be focused on delivering sanctioned projects. Maintaining the strength of our conventional operating platform is a fundamental part of the Company's equity story, underpinning the significant opportunity our unconventional acreage presents.

Momentum is building across the business and across the industry as we start to drill and flow appraisal wells to assess commercial viability of these shale resources. There is a significant level of activity onshore UK, and over the next year, the industry is expected to have over half a dozen operators either drilling or flowing wells, including a number from IGas.

We look forward to the future with excitement not only for IGas, but for the wider UK onshore industry, as security of energy supply and diversification of the UK energy mix becomes ever more important.



**Mike McTighe**  
Non-executive Chairman

## THIS YEAR'S REPORT – KEY FEATURES

In the Strategic Report we provide a description of the business, the environment in which we work, our strategy and business model for creating value for all our stakeholders, as well as a more detailed review of our performance, analysis of our results and a description of the risks to the business and the KPIs against which we benchmark our performance.

We live in increasingly volatile times and a key responsibility for the Board is to review risk on a continual basis. I am pleased to say IGas has a comprehensive risk management and planning process in place, details of which can be found on pages 28 to 30.

In the Corporate Governance section we provide detail on our corporate responsibility activities, some of the topics and activities discussed by the Board, the statutory Directors' Report and Directors' Remuneration Report together with information on the key Board committees.

We consider the report to be fair, balanced and comprehensible. It is a reflection of how we operate as a business and how we collectively serve our stakeholders.

Read our Corporate Governance Report on pages 41 to 44

## OUR VALUES

Respect

Performance

Collaboration

Commitment

Transparency

# VALUE CREATION

## BUILDING A RESPONSIBLE BUSINESS

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

Our strategy remains clear and focused and we intend to deliver sustainable growth by focusing on exploiting our existing reserves, commercialising and developing our shale assets and converting resources into reserves.

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

### **Strategy at the core of our business**

Reserves and production growth

Developing shale portfolio

Local and national engagement

## VALUE CREATION

## CONTINUOUS ASSESSMENT

## OUR RESOURCES AND RELATIONSHIPS

## MAINTAINING COMPETITIVE ADVANTAGE

## OUR RESOURCES AND RELATIONSHIPS

### **Our community**

We build relationships with our stakeholders in the communities we operate in.  
Read more on page 32

### **Our people**

We constantly strive to develop our employees and their knowledge and skills.  
Read more on page 31

## CONTINUOUS ASSESSMENT

### **Risks and uncertainties**

We constantly assess the risks facing our business and develop mitigation strategies.  
Read more on page 28

### **Key performance indicators**

The success of our operations is measured against KPIs.  
Read more on page 26

## MAINTAINING COMPETITIVE ADVANTAGE

### **Disciplined asset portfolio management**

### **Optimisation of assets**

### **Integrated management tools and financial management**

### **Operating capability**

## VALUE CREATION

### **Turning opportunities into value**

# OPERATING RESPONSIBLY

## THE REGULATORY ROUTE TO DEVELOPMENT

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

1

### PEDL issued

Financial and operational competency assessed.

Petroleum Exploration and Development Licence (“PEDL”) issued by the Oil & Gas Authority.

2

### Landowner consent

Operator secures landowner consent for activity.

3

### Environmental risk assessed

Environment Agency assesses risk to water, air quality and how waste will be managed.

IGas stakeholder engagement process

Discussions with the community.

Community presentations, exhibitions and engagement.

Dialogue and information.

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 (scheduled and unannounced) to ensure we are always fully compliant.

We operate in many sensitive areas and we are committed to preserving our landscapes and work closely with planning and all other statutory authorities and local people to minimise the environmental impact of our operations.

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

## 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”)**

**Mineral Planning Authority (“MPA”)**

4

## Environment Agency grants permits

Community benefits.

5

## Planning permission

Planning permission from local authorities who seek views from the local community and statutory consultees.

Progress updates.

6

## Final regulatory checks and consents

Final checks to ensure controls are in place.

## Operations begin

Once all these rigorous safety checks have been completed and permits secured – activity can begin.

## Continued throughout lifecycle

### Community engagement

Read more about our engagement with local communities below and on page 32

### Health and Safety

Read more about our ISO accreditation on page 35

## COMMUNITY ENGAGEMENT

It is imperative that we are a good neighbour, recognising our responsibility to work in partnership with the 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 communicating with local stakeholders based on the specific needs of each community. Some examples of our engagement work in 2017 are as follows:

### Springs Road and Tinker Lane

During the year we continued to hold regular Community Liaison Group (“CLG”) meetings for both these sites. We regularly facilitate “guest” presenters to cover areas such as planning and environmental monitoring. We also held a village meeting for the residents of Misson to ask questions of the project team.

As we move to the construction and drilling phases we will keep the local community appraised through these regular CLG meetings, our community website [www.igas-engage.co.uk](http://www.igas-engage.co.uk) and through newsletters.

### Ellesmere Port

Pre-application consultation was undertaken with the MPA, ahead of the submission of the planning application. IGas visited and/or informed in writing all local businesses of the plans for the Ellesmere Port Well site. We also consulted and informed local councillors and the MP of the plans for the Ellesmere Port Well site. We distributed leaflets to the local community in July 2017 and we held a public exhibition in August 2017.

### Ince Marshes

During the pre-application phase we have so far held a consultation event, met with local parish councils, written to 1,727 residents within a kilometre radius of the proposed site and undertaken a leaflet drop and “door knock” for local residents. We have also met with local business groups and other existing community forums.

We will be holding further events during the planning application process.

Further details on all our projects can be found at [www.igas-engage.co.uk](http://www.igas-engage.co.uk)

# OUR MARKETPLACE

## A CHANGING MARKET

The UK gets most of its energy today from oil, gas and nuclear with coal being phased out as the UK seeks to lower greenhouse gas emissions.



76%

Oil & gas accounts for 76% of the UK's energy mix<sup>1</sup>

33%

UK industry pays 33% more than the rest of Europe for electricity<sup>1</sup>

25%

Global oil and gas demand is forecast to rise between now and 2035<sup>2</sup>

<sup>1</sup> Source: University College London.

<sup>2</sup> Source: BEIS.



## Overview

During the first part of the year the oil market remained volatile, challenged by high stocks and sluggish prices. In the second half of the year, OPEC extended its production cuts and adhered to them and rig counts in the US remained at relatively low levels, against the backdrop of increasing global growth and therefore demand

2018 has started buoyantly with oil prices above \$60/bbl, a marked shift from the lows of the mid \$20/bbl in early 2016. Whether this oil price run can be sustained, let alone extended, is difficult to predict but the oil economists point to more fundamental reasons, on both the supply and demand side, to think that oil prices, at least around \$60/bbl, are sustainable.

The gas market is becoming more global, particularly given the increasing supply of LNG. Underlying gas demand has continued during 2017, with market prices dominated by continued low-cost supply growth from a number of regions, such as the US, causing global pricing to remain relatively low for the first half of the year. UK pricing does not always follow this dynamic and as we went into the UK winter, we saw natural gas pricing with the UK NBP moving up to around \$7-8/mcf, more than double the price in the US.

## UK Energy

The most recent statistics published from 2016 show that oil and gas provided 76% of the UK's primary energy with 38% alone derived from natural gas, a 50% increase since 1990. There was a switch in the main sources of electricity generation away from coal to gas generation. Generation from coal fell by 60% in 2016, as a number of plants closed or switched to burning biomass; gas rose by 46%. Renewables' share of electricity generation was stable at 25% in 2016, the same as in 2015. As a result of gas replacing coal, UK carbon emissions fell by 7% in 2016. On a global basis this is an area that must be addressed, with some developing economies still utilising coal as a key power provider.

In the UK, gas has played an important role in reducing emissions from electricity generation. Since 1990, emissions from power stations have fallen by 62%, a saving of 125 million tonnes of CO<sub>2</sub> a year.

Whilst indigenous oil and gas will continue to provide an important part of the energy mix there are finite reserves in the North Sea. Currently c.50% of our gas is imported and that is set to rise to nearly 80% in the next 17 years.<sup>2</sup>

In May 2017, the Conservative Government renewed its pledge to support UK shale development, signalling its desire to make domestic energy security a priority. This comes after warnings that unless we begin developing and using our own onshore resources, in 20 years the UK will be importing over 75% of our gas, costing the equivalent of over £300 per household<sup>3</sup>. It was less than two decades ago that the UK was a net exporter of energy. Based on research by UKOOG<sup>4</sup>, with 400 shale pads across the UK (amounting to 0.2% or less of the total land area) we could reduce our import dependency by at least 50% by 2035.

In its Clean Growth Strategy, published in October 2017, the Government re-affirmed the importance of natural gas for heating. By replacing LNG imports with natural gas produced onshore, we can help to reduce the UK's carbon footprint and provide a cost-effective source of energy and feedstock for our homes, businesses and industry.

In November 2017, the Government published a White Paper: Industrial Strategy 'building a Britain fit for the future'. It states that the emerging shale gas industry 'offers the prospect of creating jobs, enhancing the competitiveness of downstream sectors and building up supply chains', lending further support to the future development of the industry.

As we look to the future, the world is moving to the electrification of transport with many European countries including the UK having announced plans to ban the sale of new diesel and petrol cars in the future. The extra electricity needed in the UK alone will be the equivalent of almost 10 times the total power output of the new Hinkley Point C nuclear power station being built. Recent research published<sup>5</sup> states that without investment nuclear capacity will be 35% below current levels by 2040. The answer is that all areas will need to contribute towards our energy make up, specifically with regards to electricity generation, and UK shale could potentially make significant contributions.

The UK will need to ensure its energy supply is secure, affordable and as low carbon as is economically possible and our indigenous onshore resources potentially have a key contribution to make.

## Climate change and energy mix

Climate change and therefore future energy and power mix is an area of focus for many, as demonstrated by COP21. As energy markets become more global, this will continue to make front page headlines in how we all contribute to reducing emissions and moving towards the 2-degree target.

What is self-evident is that transporting fuels is inefficient and therefore worse for the global environment. In addition, we absolutely need gas as part of the energy mix and this will not change for decades to come.

In terms of efficiencies, shipping gas across oceans and continents in the form of LNG requires energy in itself. The gas produced in Qatar must be super-cooled, then loaded, brought thousands of miles to the UK then unloaded and regassified, a process that uses a significant amount of energy. In turn, importing this gas rather than producing it here in the UK means 10% higher lifecycle emissions for that supply, which has big implications for our environment, particularly as we take gas from nations with lower regulatory standards than our own.

Source: BEIS, Provisional Greenhouse Gas Emissions 2016

<https://www.gov.uk/government/statistics/provisional-uk-greenhouse-gas-emissions-national-statistics-2016>

Source: BEIS

Source: Oil and Gas Authority, UK's oil and gas production (and demand) projections

<https://www.oa.gov.uk/data-centre/data-downloads-and-publications/production-projections-2017> 2.1.1 million households in the UK (see ONS: <https://www.ons.gov.uk/peoplepopulationandcommunity/birthsdeathsandmarriages/familiesbulletins/familiesandhouseholds/2016>)

Source: [http://www.urog.org.uk/images/ukroog/papers/Developing\\_Shale\\_Gas\\_and\\_Maintaining\\_the\\_Beauty\\_of\\_the\\_British\\_Countryside.pdf](http://www.urog.org.uk/images/ukroog/papers/Developing_Shale_Gas_and_Maintaining_the_Beauty_of_the_British_Countryside.pdf)

Source: Morgan Stanley Research Note: Does Nuclear Have a Role to Play in Decarbonisation?

# OUR MARKETPLACE CONTINUED INDUSTRY WIDE MOMENTUM AND COLLABORATION IN SHALE APPRAISAL

- Activity
- IGas operated licences
- Other operators
- BGS shale prospective
- IGas non-operated licences

Newcastle

Leeds

Manchester

Liverpool

## CUADRILLA – LANCASHIRE

### Preston New Road

Cuadrilla has completed drilling a vertical pilot well to a depth of over 2.7km through both the Upper and Lower Bowland shale rock intervals at Preston New Road, Lancashire.

Cuadrilla is currently drilling two horizontal wells and once completed hydraulic fracturing of both will follow. Cuadrilla plans to test the flow rate of natural gas from the horizontal wells for approximately six months after this.

The company has recovered some 375 feet of core samples and early analysis of this data suggests excellent rock quality for hydraulic fracturing and a high natural gas content in several zones within the shale.

## IGAS ENERGY – NORTH NOTTINGHAMSHIRE

### Springs Road and Tinker Lane

Permission to drill three wells in total across two sites.

Construction is almost complete at both sites. These wells being drilled in 2018 will form the foundation of wider development in the East Midlands with the mid-term focus moving to a pilot development in the Gainsborough Trough.

## INEOS SHALE – DERBYSHIRE, SOUTH YORKSHIRE AND NOTTINGHAMSHIRE

INEOS has completed a 3D seismic survey as part of their plans to develop the nation's shale gas resources across a 250km<sup>2</sup> area of the East Midlands.

INEOS has three applications for appraisal wells in the planning system.

During 2017, INEOS acquired Total's entire 40% interest in PEDLs 139 & 140, and a 30% interest in PEDLs 273, 305 & 316 and the entire UK onshore Petroleum Exploration and Development Licence interests of ENGIE E&P UK Limited.

## THIRD ENERGY – YORKSHIRE

### Kirby Misperton

Third Energy has planning permission to hydraulically fracture its existing KM-8 well. The Secretary of State for Business, Enterprise and Industrial Strategy ("BEIS") has confirmed that Third Energy has met all of the 13 technical requirements set out in section 4A of the Petroleum Act 1998. Before granting final consent to hydraulically fracture the KM-8 well, the Oil & Gas Authority, working with the Infrastructure and Projects Authority, will undertake a financial resilience review.

# CHIEF EXECUTIVE'S STATEMENT

## POSITIVE MOMENTUM

The expectation of ongoing free operating cash flow provides us with a solid platform and financial flexibility to execute our growth plans.

We ended 2017 in a stronger financial position having carried out a successful capital restructuring earlier in the year against a backdrop of continued commodity price volatility. Now, with capital available to deploy, we are taking further steps to improve operating and production efficiency that will underpin our conventional production through 2018 and beyond.

The midpoint of the year saw the start of the current oil price run. A convergence of supply constraints and demand strength are factors contributing to continued oil price strength and creating foundations to sustain that relative strength in 2018.

Over the past few years we have driven operating costs down to approximately \$28/boe. With oil prices now above \$60/bbl, we are reviewing further various initiatives to grow our production from our existing producing sites across the country.

The UK is heavily reliant on gas, being the second largest consumer of gas in the EU after Germany. Latest data available from 2016 shows 40% of UK primary energy was derived from natural gas, representing a 50% increase since 1990. Currently c 50% of our gas is imported and that is set to rise to nearly 80% in the next 17 years.

We have the opportunity to be a potentially important contributor to changing the future dynamics of the UK's supply of gas, reducing our growing reliance on imports while meeting our national demand for gas, bringing direct local investment, and also benefits to our wider environment and economy.

Read more about our marketplace on page 14

### Strengthening the Balance Sheet

In April 2017, shareholders approved the terms of a fundamental capital restructuring of the Group, concluding a long process that commenced in early 2016. This complex restructure involved new equity of \$57 million being raised, a number of secured and unsecured bonds exchanged for equity, a number bought back and the remaining bond terms amended. This resulted in net debt being reduced from c. \$120 million to under \$10 million on completion.

The transaction has significantly improved our financial position and we are generating operating cash for reinvestment back in the business at the current oil price of over \$60/bbl.

We have created a more robust and stable financial platform for the future development of the Group with senior management now focused on delivering operationally as well as strategically.

### Operational performance

Group production averaged 2,335 boepd for the year as our production crews worked hard getting wells back online that had required maintenance.

We continue to identify and evaluate opportunities across our conventional assets. We see value creation in turning maturing field decline into production growth and whilst the past couple of years has seen little capital investment given the challenging oil price backdrop and focus on cash preservation, we are now spending more time looking at exploration and appraisal opportunities within these existing assets.

We have approved some incremental projects including the Albury and Gainsborough gas projects, pump enhancement and waterflood activity at Welton and plant and maintenance projects. We expect to see the benefits of these projects during the latter part of 2018.

We have also identified, and are looking to accelerate, a number of other projects with attractive returns. Detailed technical and economic evaluations are progressing to advance these opportunities which will further underpin our conventional portfolio.

IGas is now approaching a period of increased operational activity across its acreage. Having received formal planning approval for three wells in North Nottinghamshire, site construction continues at our Tinker Lane and Springs Road sites. We anticipate that we will spud the first well mid-2018.

In the North West, in July 2017, we submitted a planning application to test the Pentre Chert formation at our existing site at Ellesmere Port. The planning officer made a recommendation for approval but the planning committee refused consent.

It is our intention to appeal this decision. At Ince Marshes, we continue to progress our planning application to drill a new well and hydraulically fracture at this existing site. Subject to surveys and monitoring we expect to submit the application mid-2018.

### Momentum in UK onshore activity

2018 will be a defining year for the onshore oil and gas industry. There is a significant level of activity onshore UK, and over the next 12 months, the industry is expected to have a number of operators either drilling or flowing wells. The industry has made the first payments under its community benefits scheme, prepared to begin drilling horizontally into shale rock for the first time in Lancashire and submitted a final stage application for high volume hydraulic fracturing in North Yorkshire.

Cuadrilla has announced that early results from its vertical wells in Lancashire were very encouraging and they are confident that there is a very sizeable quantity of natural gas in the Bowland Shale. The coming months should see important data in terms of flow rates that will help the industry better understand the geology in the key basins.

### IGas in the community

It is hugely important to us that the local communities where we operate benefit from our presence both economically and socially.

This means not only via investments from our own community fund, which has distributed almost £1 million to communities in which we operate, but also providing jobs, working closely with the local supply chain and funding apprentices.

As many of our existing production sites will still operate for years to come and as new sites are brought into production we want to make sure that we make a positive difference to the local community.

Read more about how the IGas Community Fund has supported local projects over the last decade on page 32.

### People

2017 was another challenging year for the business, balancing the restructuring process with maintaining production and pursuing our shale development programme.

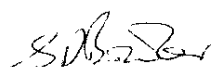
We continue to operate in an ever-changing and complicated industry where the challenges are numerous and the pace and pressure to deliver constant. What I appreciate is just how much each of our people cares, how dedicated they are to making this work and the personal sacrifices made to ensure the continued success of the business.

### Outlook

The expectation of ongoing free operating cash flow provides us with a solid platform and financial flexibility to execute our growth plans.

Whilst we are optimistic about our plans and the opportunities before us, we are also cautious about the macro environment and will continue to maintain financial discipline across the business whilst bringing projects forward that have attractive returns at current oil prices.

There will be a number of wells drilled this year, some with hydraulic fracturing. Once we have proven to our local communities that we can conduct this highly regulated and proven process in a safe and accountable way we hope that those undecided and unsure of the process will come to accept it for what it is, and has been for the last five decades: a standard oilfield operation that will help support the UK's energy independence, economy and environment.



**Stephen Bowler**  
Chief Executive Officer

## ALBURY PROJECT: MONETISING STRANDED GAS

The Albury field in Surrey was originally developed for power generation. It produced for a number of years before being shut down in 2009 to drill a second well to appraise the gas storage capability of the Purbeck Sandstone.

The results of an extended well-test in 2011 together with the historical production data and modelling gave sufficient confidence to conclude that commercial volumes of gas were in place.

We have been working on a cost effective solution to monetise the gas and we are now in the process of securing consent for the production of the gas, its export by underground pipeline to the main gas grid and the production of electricity. The power generation scheme is achieved through the installation of a gas engine package and utilisation of the existing electrical network for electricity export.

Since 2010 the gas transmission business has been increasingly deregulated so as to enable the injection of small quantities of bio-methane into the grid in the form of CNG or low pressure gas. In addition small scale gas processing/conditioning equipment has been developed to a level where compliant systems are both reliable and economical to operate. These developments have allowed the "gas-to-grid" option to be considered as a viable, economical solution for Albury Gas Monetisation.

# OPERATIONAL REVIEW

## SECURE PRODUCTION

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

### Production

During 2017, the production division continued to deliver cost and production efficiencies through extending and embedding many of the initiatives that had been introduced in previous years. Throughout the year we conducted a significant programme of well and facility maintenance which has resulted in the return to production of several shut-in wells. All of this activity resulted in average net production for the year of 2,335 boepd with operating costs of c.\$28/bbl.

Our operations are based largely within mature fields with aged assets and as a consequence we believe that realising high production efficiency will be a fundamental component of achieving our operating cost goals going forward. As the fields have a long operating history and we have significant local operating knowledge we have been able to take advantage of both to conduct a systematic review of each of our wells in order to ascertain any performance or reliability issues. This exercise coupled with the live data that we now have from our downhole gauges and Rod Pump Off Controllers (part of our Digital Oilfield initiative) has meant that we are better able to execute predictive techniques with our wells. For example, in order to avoid rod breaks or to ensure that following a rod break we have an enhanced repair programme "on the shelf" to quickly return

the well to production. This approach has delivered a 70% reduction in rod failures since its introduction and has created the capacity to allow our rodding rig to focus more on proactive activities and opportunities.

The deployment of our Digital Oilfield concept also continues as we see this being an enabler for real-time, swifter and better informed decision making, with increased employee engagement and productivity all combining to assist in driving down our future operating costs.

Early in the year a focus on developing near term projects and identifying optimisation opportunities continued, with key activities being progressed to ensure that we were well positioned to take them forward following the Company refinancing and an improved oil price environment. Post the restructuring, several of our optimisation projects were sanctioned including the mobilisation of a coiled tubing unit for work on three separate wells, two of which have increased their production rates by over 100% and the third brought back online after being shut-in due to loss of productivity. These works combined with an intensive workover campaign that included deployment of wax mitigation technologies, pump optimisations and well conversions have effectively offset the annual decline with our production rates exiting the year almost 5% higher than at the start

We approved the trial of beam pump gas compressors at two of our fields in order to reduce back pressure on several of our wells. These units are due for installation in mid-2018. If successful they will improve

the individual well productivity and provide additional gas for our power generation schemes, as well as opening up the potential for further roll out across several other sites in the portfolio. Other innovations include the installation of a micro turbine package to trial the potential to utilise annulus gas for small scale local power generation, whilst also taking back pressure off the well; this is also due for commissioning in mid-2018.

Progress also continues with our water injection initiatives in both the Weald and the East Midlands. We have recently approved a new scheme at our Welton field that, following the conversion of an existing well and the installation of injection facilities, envisages the return to production of two wells that are currently shut-in with the added benefit of de-risking the current production from the field.

Another project, at our Stockbridge field, is also underway where we have developed a package of works across five wells to debottleneck the water management constraints at the field whilst also returning existing wells to production. The programme includes the side-track of a previously abandoned water injection well, the stimulation of a well with low productivity, two workovers and the reinstatement of a well shut-in for water management to be returned to production. These activities will not only de-risk the existing production but add up to 30% of incremental production from the field.

## IGAS ASSETS

The monetisation of our stranded gas assets advanced throughout 2017; most notably at our Albury site. For several years the gas transmission business has been increasingly deregulated as it has had to adapt to enable the injection of small quantities of biomethane into the network. Typically this takes the form of CNG or low pressure gas; however, this has also created the opportunity for direct gas to grid solutions to be accepted for entry and following discussions with the local gas distribution network operator we have unlocked this as an alternative development solution to the originally planned CNG option. This new choice adds significant value to this development and has clear synergies for other stranded gas applications within our portfolio.

Capital expenditure across these projects amounted to c.£4.0 million during the year. *Going forward, we expect c.£5.0 million of incremental capital expenditure per annum will result in production levels of c.2,500 boepd in the medium term.*

### **IGas net reserves and resources (MMboe)**

We have had over 100% reserves replacement with 2P reserves standing at 13.64 MMboe as at 31 December 2017.

The Group's estimates of proved and proved plus probable reserves are taken from year-end internal estimates as of 31 December 2017. 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. The probable reserves are estimated additional reserves determined to be more likely than not to be recoverable with some planned future capital investments.

As these are mature fields, their historical performances have reliable declines in producing-rate trends and the proved reserves have been estimated by the application of appropriate decline curves only to the limits of economic production. Probable undeveloped reserves were estimated for some incremental projects by using analogy type-well data of nearby wells completed in the same reservoirs. These incremental projects are based mainly on reinstatement of some offline wells to access shut-in and/or behind-pipe reserves by workovers, recompletions and sidetracks.

### **East Midlands**

Our East Midlands acreage stretches from the East Midlands Shelf to the Gainsborough Trough and the Widmerpool Gulf.

Area under licence

**1,886 km<sup>2</sup>**

Number of fields

**16**

### **Southern England**

Located in the Weald Basin. 50% of our current production is generated from the Weald Basin.

Area under licence

**641 km<sup>2</sup>**

Number of fields

**11**

### **Scotland**

Our licences in Scotland are located in the Inner Moray Firth, Solway Basin and West Fife.

Area under licence

**62 km<sup>2</sup>**

Number of fields

**1**

## OPERATIONAL REVIEW continued

There has been 2P reserves replacement of over 100% based on a cumulative production of 0.89 MMboe in the year. The reserves growth is due largely to a combination of planned future investments in non-producing and undeveloped reserves, and better reservoir management. The developed producing 2P reserves represent about 90% of the total 2P reserves.

### Net reserves and resources (MMboe)

	1P	2P	2C
<b>As at 31 Dec 2016<sup>1</sup></b>	9.02	13.37	21.84
<b>As at 31 Dec 2017<sup>2</sup></b>	8.11	13.64	22.21

### Development/Appraisal Assets

During 2017, good progress was made with developing our East Midlands and North West shale acreage.

#### East Midlands

In the East Midlands we signed Section 106 legal agreements in May 2017 for the exploratory well sites at both Springs Road and Tinker Lane with Nottinghamshire County Council ("NCC"), in effect the legal agreement for the planning consent. Construction commenced at both sites in late 2017 and is largely complete at Springs Road, with good progress being made at Tinker Lane.

The wells will be drilled during 2018 and will form the foundation of a wider development in the East Midlands with the mid-term focus moving to a pilot development in the Gainsborough Trough, leveraging on our existing, long standing operations in the East Midlands.

#### North West

In the North West, we submitted a planning application at our existing site at Ellesmere Port in July 2017. Evaluation of wire-line logs acquired across the various formations encountered during the drilling of the well in 2014 indicated hydrocarbons being present in the Pentre Chert Formation.

The Pentre Chert Formation is a naturally fractured reservoir rock composed of interbedded layers of cherts and cherty mudstones, with subordinate thin layers of siltstones, limestones and sandstones.

The proposed project includes carrying out further tests on the Pentre Chert, including a Drill Stem Test ("DST"), to provide an initial analysis of the hydrocarbon composition and its flow characteristics within the formation. The initial information obtained during the DST will be used to determine whether commercially viable quantities of hydrocarbons exist and if successful we will then carry out an Extended Well Test to better understand the production performance and associated volumes.

Environmental permits were issued by the Environment Agency in November 2017 and on 17 January 2018, the Planning Officer at Cheshire West and Chester Council made a recommendation for the approval of our application. At the planning committee meeting on 25 January 2018, the committee voted to refuse the application. It is our intention to appeal this decision.

Separately, a scoping report was submitted to Cheshire West and Chester Council in October 2017 which sought the Councils' views on a future application to drill a new well at our existing Ince Marshes well site. The proposed development would be for one new well, initially to be drilled vertically and then horizontally. We also intend to hydraulically fracture and flow test the target formation, to assess the flow potential of the well. A planning application will be made in the first half of 2018.

Further planning applications to drill, hydraulically fracture and flow test new wells will be made in 2018, with a view to utilising the 3D seismic data acquired in 2015 and accelerating development in this basin.

*John M. Blaymires*

**John Blaymires**  
Chief Operations Officer

<sup>1</sup> O&M estimate, as at 30 June 2016, adjusted for six month production to 31 Dec 2016.  
<sup>2</sup> Gas estimate, cumulative production during the period 0.89 MMboe.



# FINANCIAL REVIEW

## MAKING SOUND FINANCIAL PROGRESS

Following the completion of the capital restructuring in April 2017, the Company is well positioned to pursue its growth strategy.

During the first half of the year the Company concluded a successful capital restructuring, significantly reducing debt and giving the Company an improved capital structure which is sustainable in the current oil price environment. The restructuring proposal was formally approved by all stakeholders in April 2017 and resulted in the issue of new equity for \$57 million, secured bonds of \$40 million 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 60 cents in the dollar and the remaining \$30 million of secured bonds having their terms amended. On completion, net debt was reduced from c.\$120 million (£100 million) to under \$10 million (£7 million).

### Results for the year

Oil prices remained volatile during the year driven by concerns over high inventories and over supply. In the second half, OPEC extended its production cuts and rig counts in the US remained at relatively low levels, against the backdrop of increasing global growth, providing support for oil prices. The price of Brent crude averaged \$54.2/bbl (2016: \$44/bbl) for the year, which had a positive impact on our revenues. Sterling strengthened against the US dollar and the exchange rate increased from £1:\$1.26 at the beginning of the year to £1:\$1.35 in December 2017, having a negative impact on our US dollar revenue but a positive impact on US dollar denominated debt.

For the year ended 31 December 2017 adjusted EBITDA was £9.24 million (2016: £10.2 million) whilst a profit was recognised from continuing activities after tax of £15.9 million (2016: loss £31.8 million). The main factors driving the movements between the years were as follows:

- Revenues increased to £35.8 million (2016: £30.5 million) principally due to higher oil prices. This was moderated slightly by a stronger average sterling to US dollar exchange rate and slightly lower oil volumes for the year;
- Other costs of sales increased to £21.4 million (2016: £20.9 million) mainly due to additional workovers and higher inspection and re-permitting costs;

- Administrative expenses decreased by £5.0 million to £6.4 million (2016: £11.4 million). Legal and professional costs were £2.6 million lower in 2017 as 2016 included costs relating to the proposed refinancing whereas similar costs in 2017 were offset against the gain on restructuring once completed. Share-based payment charges were £1.5 million lower in 2017 as prior year schemes became fully vested by the end of 2016. A cost reduction exercise also contributed to the reduction in administrative expenses;
- Redundancy costs were £0.2 million (2016: £0.6 million) as the redundancy programme was completed primarily in 2016;
- The £0.1 million exploration write-off related to costs on relinquished licences (2016: £4.5 million);
- Other income decreased to £0.2 million (2016: £0.7 million); and
- A tax credit of £19.1 million was recognised mainly due to the recognition of a deferred tax asset relating to ring-fence tax losses (2016: a tax credit of £13.0 million 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).

### Income statement

The Group recognised revenues of £35.8 million in the year (2016: £30.5 million). Group production in the year averaged 2,335 boepd (2016: 2,355 boepd). Revenues for the year included £3.0 million (31 December 2016: £3.3 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.

# FINANCIAL REVIEW continued

The average pre hedge realised price for the year was \$51.0/bbl (2016: \$44.1/bbl) and post hedge \$51.3/bbl (2016: \$58.1/bbl). £0.2 million was realised on hedges during the year with average Brent oil prices generally trading within the monthly hedged collars (2016: realised gains of £8.5 million). The average GBP/USD exchange rate for the year was £1: \$1.29 (2016: £1: \$1.37) which negatively impacted revenue for the year.

Cost of sales for the year were £29.3 million (2016: £27.2 million) including depreciation, depletion and amortisation (DD&A) of £7.8 million (2016: £6.3 million), and operating costs of £21.4 million (2016: £20.9 million). Operating costs include a cost of £2.8 million (2016: £2.7 million) relating to third party oil. The contribution received from processing this third party oil was £0.2 million (2016: £0.6 million).

Operating costs per barrel of oil equivalent (boe) were £21.9 (\$28.2), excluding third party costs (2016: £21.1 (\$28.8) per boe). Operating costs per boe were higher in 2017 due to additional workovers and higher inspection and re-permitting costs.

Adjusted EBITDA in the year was £9.2 million (2016: £10.2 million). Gross profit for the year was £6.5 million (2016: £3.3 million). Administrative costs decreased by £5.0 million to £6.4 million (2016: £11.4 million) principally due to lower legal and professional costs, lower share-based payment charges due to options relating to prior year schemes becoming fully vested and a general cost reduction exercise.

Exploration costs written off of £0.1 million related to costs on relinquished licences (2016: £4.5 million relating to relinquishment of licences during the year).

Other income was £0.2 million (2016: £0.7 million which included a £0.4 million adjustment on the contingent deferred consideration in relation to an amount payable to a joint venture partner).

Net finance costs were £6.2 million for the year (2016: £28.8 million), which primarily related to interest on borrowings of £5.4 million (2016: £11.9 million) and, a net foreign exchange gain of £0.2 million, principally on \$ denominated debt, and bank balances (2016: loss £14.8 million). 2016 also included a £1.5 million loss on the sale of bonds. The Group realised a net gain on restructuring of £4.9 million (2016: nil).

The Group made a loss on oil price derivatives of £2.1 million for the year due to the increase in underlying prices (2016: loss £3.5 million).

## Cash flow

Net cash generated from operating activities for the year was £6.7 million (2016: £12.4 million). The decrease was primarily due to higher revenue and a decrease in administrative expenses offset by lower realised hedges and the timing of payments. The Group invested £6.3 million across its asset base during the year (2016: £8.8 million), of which £3.7 million was invested in the conventional assets, where investments continue to maintain our production at current levels, and £2.6 million in unconventional assets in relation to our shale development programme.

IGas carried out a capital restructuring during the year resulting in a cash inflow of £46.8 million from the issue of shares and cash outflows of £39.3 million and £4.3 million, respectively, from the repayment of secured bonds and payment of fees. IGas also repaid £3.6 million (\$4.6 million) of principal on borrowings to bondholders during the year in accordance with the terms of the bonds and purchased bonds with a face value of £1.8 million (\$2.2 million) (2016: repaid £4.9 million (\$7.1 million) and sold bonds with a face value of \$8.0 million for \$6.0 million). Future annual interest costs have decreased to approximately \$2.3 million following the capital restructuring.

IGas paid £5.9 million (\$7.3 million) in interest (2016: £11.6 million (\$15.5 million)).

Cash and cash equivalents were £15.7 million at the end of the year (2016: £24.9 million).

## Balance sheet

Net assets were £181.6 million at 31 December 2017 (31 December 2016: £70.5 million) with the increase of £111.1 million arising primarily from the results of the capital restructuring and an income tax credit.

Borrowings decreased from £124.6 million to £21.2 million following the successful capital restructuring during the year.

At 31 December 2017, the Group's derivative instruments had a net negative fair value of £2.8 million due to an increase in the underlying Brent forward curve (31 December 2016: net negative fair value of £0.9 million).

Net debt at the year end, being the nominal value of borrowings less cash, was £6.2 million (31 December 2016: £99.7 million).

Shareholders' equity increased by £111.1 million to £181.6 million primarily as a result of the gain after tax and the capital restructuring (see note 25).

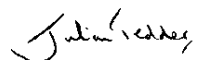
## Going concern

The strength of the Group's balance sheet was improved significantly by the capital restructuring which was completed in April 2017. The Group continues to closely monitor and manage its liquidity risks. Cash forecasts for the Group are regularly produced based on, inter alia, the Group's production and expenditure forecasts, management's best estimate of future oil prices (based on current forward curves, adjusted for the Group's hedging programme) and the Group's borrowings. Sensitivities are run to reflect different scenarios including, but not limited to, possible further reductions in commodity prices below the current forward curve, reductions in forecast oil and gas production rates and changes in the \$ to GBP exchange rates.

The Group's working capital forecasts show that the Group will have sufficient financial headroom for the 12 months from the date of approval of the financial statements. The Directors, therefore, have a reasonable expectation that the Group has adequate resources to continue in existence for the foreseeable future and they continue to adopt the going concern basis of accounting in the preparation of the financial statements.

## Outlook

Following the completion of the capital restructuring in April 2017, we have a stronger 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

# FINANCIAL DASHBOARD

## Key financial statistics

	Year ended 31 December 2017	Year ended 31 December 2016
Revenues	£35.8m	£30.5m
Adjusted EBITDA <sup>1</sup>	£9.2m	£10.2m
Underlying operating profit <sup>1</sup>	£1.3m	£3.7m
Gain/(loss) after tax	£15.5m	£(32.9m)
Net cash from operating activities	£6.7m	£12.4m
Net debt <sup>2</sup>	£6.2m	£99.7m
Cash and cash equivalents	£15.7m	£24.9m
Net assets	£181.6m	£70.5m

## Realised price per barrel

**\$51.3**

Realised price  
per barrel<sup>1</sup>

\$12.7 Net back to IGas per BOE

\$10.4 G&A per BOE

\$20.2 Other operating cost

\$4.4 Well services

\$3.6 Transportation & storage

## Capital restructuring

	Balance at 31 Dec 2016 (\$m)	Move- ment in 2017 (\$m)	Balance at 31 Dec 2017 (\$m)
<b>Issued bonds</b>			
Secured bonds	(136.1)	106.4	(29.7)
Unsecured bonds	(30.0)	30.0	—
	(166.1)	136.4	(29.7)
<b>Bonds held by IGas</b>			
Secured bonds	10.5	(10.5)	—
Unsecured bonds	2.6	(2.6)	—
	13.1	(13.1)	—
<b>Outstanding bonds</b>	<b>(153.0)</b>	<b>123.3</b>	<b>(29.7)</b>
Cash and cash equivalents	31.0	(9.7)	21.3
<b>Net debt</b>	<b>(122.0)</b>	<b>113.6</b>	<b>(8.4)</b>

## Adjusted EBITDA and underlying operating profit<sup>1</sup>

	2017 £m	2016 £m
<b>Adjusted EBITDA<sup>1</sup></b>		
Loss before tax	(3.3)	(44.8)
Net finance costs	6.2	28.8
Depletion, depreciation & amortisation	7.9	6.5
Impairments/write offs	0.1	4.5
<b>EBITDA</b>	<b>10.9</b>	<b>(5.0)</b>
Share based payment charges	1.1	2.6
Redundancy costs	0.2	0.6
Gain on capital restructuring	(4.9)	—
Unrealised loss on hedges	1.9	12.0
<b>Adjusted EBITDA</b>	<b>9.2</b>	<b>10.2</b>

## Net debt

	31 December 2017 £m	31 December 2016 £m
Debt (nominal value excluding capitalised expenses)	(21.9)	(124.6)
Cash and cash equivalents	15.7	25.0
<b>Net debt</b>	<b>(6.2)</b>	<b>(99.7)</b>

	2017 £m	2016 £m
<b>Underlying operating profit<sup>1</sup></b>		
Operating loss	(2.0)	(16.0)
Share-based payment charge	1.1	2.6
Redundancy costs	0.2	0.6
Impairments/write-offs	0.1	4.5
Unrealised loss on hedges	1.9	12.0
<b>Underlying operating profit</b>	<b>1.3</b>	<b>3.7</b>

<sup>1</sup> Adjusted EBITDA and Underlying Operating Profit are considered by the Company to be a helpful additional measure to help understand underlying performance.

<sup>2</sup> Net debt = borrowings less cash and cash equivalents excluding capitalised taxes.

# KEY PERFORMANCE INDICATORS MEASURING OUR PROGRESS

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 (boepd)		Operating costs (\$/boe)		Operating cash flow (£m)	
<b>2,335 boepd</b>		<b>\$28.2/boe</b>		<b>£6.7m</b>	
2017 <sup>1</sup>	2,335 boepd	2017 <sup>1</sup>	\$28.2/boe	2017 <sup>1</sup>	£6.7m
2016 <sup>1</sup>	2,355 boepd	2016 <sup>1</sup>	\$28.8/boe	2016 <sup>1</sup>	£12.4m
2015 <sup>2</sup>	2,570 boepd	2015 <sup>2,4</sup>	\$24.6/boe	2015 <sup>1</sup>	£1.0m
2014/15 <sup>1</sup>	2,737 boepd	2014/15 <sup>3</sup>	\$34.6/boe	2014/15 <sup>2</sup>	£26.5m
2013/14 <sup>3</sup>	2,783 boepd	2013/14 <sup>3</sup>	\$37.1/boe	2013/14 <sup>2</sup>	£25.2m

### Reason for choice

The Group aims to maintain production levels of c.2,500 boepd to provide operating cash flow 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 as keeping costs low will improve the cash that we generate from our producing assets.

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

### How we measure

Daily and weekly production is monitored for all producing assets and reported weekly to senior management and monthly to the Board. Monthly production forecasts are prepared during the year to measure progress against the production target.

Operating costs are monitored closely to ensure that budget targets are being met. Operating costs are reported on a monthly basis to the Board and actions are taken, as required, to control costs in line with the budget.

Operating cash flow is reported to the Board on a monthly basis. Regular forecasts are undertaken to ensure operating cash flow is in line with budget, as well as longer-term forecasts to ensure that the strategy of the business can be adequately funded.

### Target and results for 2017

Production for 2017 was 2,335 boepd which did not meet the target of 2,500 boepd. The principal reasons for the shortfall, as in previous years, was a number of material wells requiring workovers during the year. Throughout the year we also conducted a significant programme of well and facility maintenance which resulted in the return to production of several shut-in wells, with the benefit of this work being seen in 2018.

Operating costs for 2017 were \$28.2/boe against a target of \$30.0/boe. The target was achieved due to a continuing strong focus on costs and was further helped by a weak sterling against the US dollar. We will continue to review operating costs on an ongoing basis and further savings are expected to be achieved in 2018.

### Link to strategy

<sup>1</sup>Year ended 31 December

<sup>2</sup>Nine months ended 31 December 2015

<sup>3</sup>Year ended 31 March

<sup>4</sup>2015 operating costs included a one-off rates rebate equivalent to \$7.5/boe, so underlying operating cost, for 2015 were £30.1/boe

## A reminder of our strategy

Reserves and production growth

Developing shale portfolio

Local and national engagement

## NON-FINANCIAL

Lost Time Injuries (number)

**2**2017<sup>1</sup>

2

2016<sup>2</sup>

Nil

2015<sup>3</sup>

Nil

2014/15<sup>3</sup>

1

2013/14<sup>1</sup>

Nil

Progress on Five Year Shale Development plan

**2017<sup>1</sup>**

Granted planning permission for a vertical well in PEDL 200 (Tinker Lane); planning conditions discharged and site construction commenced for both Springs Road and Tinker Lane; submitted planning application for flow tests at existing Ellesmere Port well, and submitted a scoping request for drilling and hydraulically fracturing a well at Ince Marshes in the NW

**2016<sup>2</sup>**

Granted planning consent for two wells (horizontal and vertical) in PEDL 140 (Springs Road); submitted planning application for drilling in PEDL 200 (Tinker Lane); received five new shale licences in the 14" round; and completed interpretation of 3-D seismic in the NW

**2015<sup>3</sup>**

Acquired 3-D seismic in the NW; submitted planning application for drilling in PEDL 140 (Springs Road); 14" round licence applications; and secured INEOS farm-in

**2014/15<sup>3</sup>**

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

**2013/14<sup>3</sup>**

Drilled Elam-1, and secured Total farm-in

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.

We track nine leading and nine lagging indicators during the year and these are reported to the Board on a monthly basis. We aim to have zero LTIs but when we do have an LTI this is fully investigated with clear remedial action as required and communication of learnings to the organisation.

Progress against budgeted work programmes is tracked on a monthly basis and reported to the Board. Where progress is slower than expectations actions are taken to understand the reasons and actions taken to address the issues.

The target was to have zero LTIs and this was not achieved in the year. We had two LTIs which were thoroughly investigated and meetings were held across the organisation to ensure the lessons were learned from the investigations. A key HSE theme for 2018 will be 'Time out for Safety' to ensure all operations are performed in a safe manner in accordance with procedures. We have again maintained our ISO 9001 and 14001 accreditation with no major non-conformances identified.

The target for the year was to drill wells in the East Midlands having received planning permissions in 2016. Unfortunately, while progress was made it took much longer to discharge the planning conditions than anticipated, so no shale wells were drilled in the year. During 2017 we obtained planning consent for drilling one well at Tinker Lane. We have now discharged all planning conditions at Springs Road and Tinker Lane and site construction commenced in late 2017. The construction phase is almost complete and we expect to spud the first well in mid-2018. In the North West we submitted a planning application for a well test at our existing Ellesmere Port site and submitted a scoping request for a well and hydraulic fracture at our existing Ince Marshes site. Whilst we were granted environmental permits for our Ellesmere Port site and received a Planning Officer recommendation for the approval of our application, the committee voted to refuse the application at the planning committee meeting on 25 January 2018. It is our intention to appeal the Ellesmere Port decision.

<sup>1</sup> year ended 31 December  
<sup>2</sup> nine months ended 31 December 2015  
<sup>3</sup> Year ended 31 March

# RISKS AND UNCERTAINTIES

## IDENTIFICATION AND 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.

**Key risk areas**

The risks around our existing business are set out in more detail on pages 29 and 30 but the key risk areas can be identified as being associated with the following:

**Strategic**

Making sure we apply the appropriate strategies in certain situations and ensuring we deliver on strategic objectives.

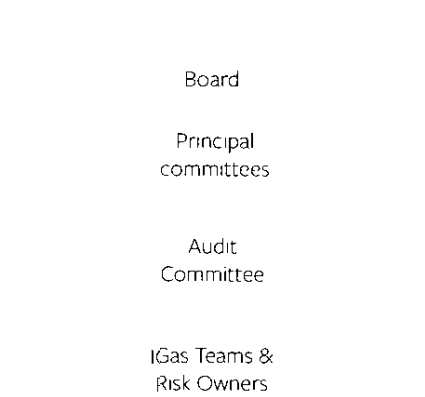
**Operational**

Successfully developing oil and gas through our production and development assets.

**Financial**

Prudent financial management seeks to mitigate the impact of market fluctuations.

**Risk management framework**



**Board**

The Board is responsible for setting the Group’s risk appetite and acceptable risk tolerance and putting in place a framework for risk management.

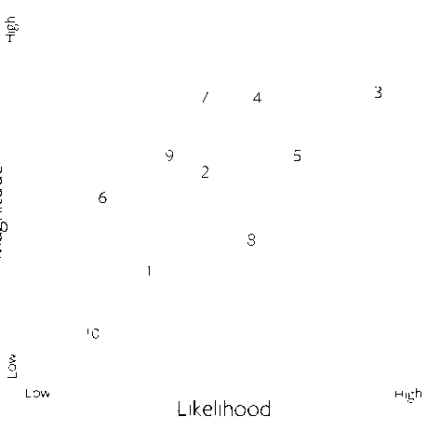
**Audit Committee**

The Audit Committee oversees the framework for risk management and ensures it is operating effectively.

**IGas Teams & Risk Owners**

The risks are separated into strategic, operational and financial categories. Senior management are assigned responsibility for the identified risks within the three categories

**Risk scale**



- 1. Exposure to political risk
- 2. Strategy performance
- 3. Planning, environmental, licensing and other permitting risks
- 4. Oil or gas production
- 5. Shale gas resources
- 6. Loss of key staff
- 7. Oil market price risk
- 8. Gas and electricity market price risk
- 9. Exchange rate risk
- 10. Liquidity risk
- 11. Capital risk

## A reminder of our strategy

Reserves and production growth

Developing shale portfolio

Local and national engagement

Risk	Executive ownership	Mitigation	Change	Strategic link
<b>Strategic</b>				
1. 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.		
2. Strategy performance 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.		
<b>Operational</b>				
3. Planning, environmental, licensing and other permitting risks 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		
4. Oil or gas production Oil or gas is not produced in the anticipated quantities from any or all of the Group's assets or that oil or gas cannot 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.		
5. Shale gas resources 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.		
6. Loss of key staff 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.		

# RISKS AND UNCERTAINTIES CONTINUED

## A reminder of our strategy

Reserves and production growth

Developing shale portfolio

Local and national engagement

Risk	Executive ownership	Mitigation	Change	Strategic link
<b>Financial</b>				
7. Oil market price risk 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	The Group has hedged a total of 600,000 barrels over the year to 31 December 2018, through zero cost collars.  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.		
8. Gas and electricity market price risk 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.		
9. Exchange rate risk 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.		
10. Liquidity risk 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.		
11. Capital risk 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 24 to the consolidated financial statements.		



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

At IGas we understand that the technological innovation, regulatory and legislative changes and socio-economic developments impacting our business model mean we have to equip our staff with the ability to anticipate and respond to change.

## OUR VALUES

### Respect

Respect is paramount, for our people, our environment, our partners and the safety of others.

### Collaboration

We take on challenges and find solutions through mutual trust, knowledge sharing and teamwork.

### Performance

Performing to the highest standards internally and externally and delivering against our targets.

### Commitment

We are fully committed to preserving the environment and providing safe and healthy working conditions.

### Transparency

We are honest about what we do, how we do it and the challenges we face. We are open to challenge, to discussion and to improving how we work to reflect our values.

We are pleased to offer all staff training commensurate with both their experience and functional discipline, in order to keep existing knowledge up to date and to learn new skills.

Recognising the need to develop junior talent, and continuing our relationship with the Humberside Engineering Training Association ("HETA") and Southampton Engineering Training Association ("SETA"), we fulfilled our commitment to take on an Apprentice Mechanical Engineer in both our Weald and East Midlands operations. At the start of the 2017/18 academic year, we partnered with Farnborough College of Technology in the recruitment of an apprentice at our Holybourne office, in the capacity of 'Production Support Apprentice', shortly after another apprentice completed his three year programme and left to start a full-time course of study at university. We are pleased to have been able to give him a platform to obtain the necessary entry requirements, and wish him every success in both his studies and his future career.

We were also able to assist a number of undergraduates with their academic development in 2017, through short internships to two students from Imperial College, London and others from Edinburgh and Portsmouth Universities.

All new employees continue to undergo obligatory health and safety training and our field operators are all enrolled in further training, including IMIST ("International Minimum Industry Safety Training"), part of the OPITO standard supporting global oil and gas industry safety standards. Just under 100 staff from all functions and locations undertook additional training via our "SafetyCare" portal completing, on average, over ten courses each.

We encourage and support staff in their professional training and Continued Professional Development ("CPD") by meeting the cost of professional subscriptions and other training courses on their behalf, whether through the SPE, CIPD, CIMA or Law Society. During 2017, we supported staff in the achievement of a number of academic qualifications from Technical and Advanced Diplomas (NVQ 3) all the way up to Masters level (NVQ 7/8).

During 2018 we will expand our offering further as part of both our succession planning and a modular 'Management Development Programme' for managers and supervisors from across the organisation.

# SUSTAINABLE AND RESPONSIBLE BUSINESS CONTINUED A DECADE OF LEGACY

Since its launch in 2008, the IGas Community Fund has awarded almost £1 million to local communities.

Many of the projects have been supported more than once over the years.

£7,000

Read more on the Community Fund website at [www.igascommunityfund.co.uk](http://www.igascommunityfund.co.uk)

**Manor Farm Environmental Education**  
Manor Farm Environmental Education was set up to provide outdoor learning and promote the benefits of outdoor play. The grant supported 'Around Rempstone Countryside For All', a programme of events to promote family and local community spirit and foster respect, understanding and concern for the natural environment.

2008                      2009                      2010                      2011

£15,000

**Ashing Lane Nature Reserve**  
Ashing Lane Nature Reserve is a 19-hectare meadow and woodland created by the Lincolnshire Wildlife Trust and Nettleham Woodland Trust. The grant initiated a competition for the design of 'threshold points' by local young people. It also funded the construction of a new access point, gates and footbridge within the woodland.

**Holybourne Theatre**

The Holybourne Theatre is a 70 year old community theatre run by volunteers.

Two separate grants enabled the construction of a new sound and lighting gallery and some further construction work ahead of the creation of a new foyer with disabled access and toilets.

# £14,000

**Bletchingley Church House**

A much loved 'home' for community groups, Church House was in desperate need of renovation. The grant helped towards the restoration. It is now being used to meet a wide range of community needs from mother and toddler groups to a collection point for donations to local food banks.

# £10,200

2012

2013

2014

2015

2016

2017

# £5,000

**South Lybster Residents Group**

The play park in South Lybster had become increasingly derelict and unsafe for children. The grant helped fund modern, attractive and adventurous equipment. It has given the South Lybster area a real boost and many families with young children are using the facility.

**Welton Patients' and Doctors' Association**

The Association is a community group supporting the local Health Centre by providing a transport scheme for the elderly and vulnerable. Over a period of four years grants have provided a secure database system for making appointments, wheelchairs and a secure storage shed.

# £5,830

# SUSTAINABLE AND RESPONSIBLE BUSINESS CONTINUED HEALTH, SAFETY, ENVIRONMENT AND QUALITY

## What is an International Standard?

An International Standard is a document containing practical information and best practice. It often describes an agreed way of doing something or a solution to a global problem.

1

### Define success

Every journey towards ISO certification starts with a single question: "What does success look like?"

Once success is defined, a success criteria is developed.

2

### Document systems and procedures

Having defined success and key activities, the next step towards ISO certification is to document the systems and procedures that deliver these success factors. The assessor will examine your organisation's existing procedures and identify where they conform to the ISO standard

After the initial assessment, they will help you to create a manual relevant to the ISO standard you are working towards. This manual sets out how your business should operate going forward so that it can deliver the ISO standard.

3

### Develop training methods

Employee development reinforces the key principles of ISO standards. The return on investing in staff training is ongoing efficiency, continual improvement of high quality systems and procedures and greater profitability.

4

### Audited externally

With key processes in place and staff trained to consistently follow these, the next step is external audit. Audits are conducted on a yearly basis, supplemented by six month reviews.

5

### Certification awarded

Once confirmed as being ISO standard compliant, your organisation will then be presented with the ISO certificate. You can then promote that you have gained international recognition to your target market.

**IGas is committed to delivering the highest standards in occupational Health, Safety, Environment and Quality ("HSEQ"). We are working to continuously improve safety and risk management across IGas.**

ISO 9001/14001 accreditation continues to be an important part of the business as it helps to demonstrate that we have management systems in place that meet the requirement of the International Standards recognised by other businesses and regulatory authorities. As set out in these pages gaining and retaining certification requires significant commitment across the business but it enables us to better manage and control our business processes.

The Company is pleased to announce Certificate Renewal during 2017.

Following the revision of ISO 9001/14001:2015 standards the Company is required to update its management system to fulfil the requirements of the new standards. The Company is on schedule to complete that transition by the required date of September 2018.

### Reporting

The IGas Board receives regular information on the HSEQ performance of the Company, and specifically monitors health and safety and environmental reporting at each Board meeting. In 2017, IGas maintained its commitment to the delivery of continual improvement in HSEQ performance, with excellent results in many areas, but with some areas below target and requiring renewed actions to be undertaken. During the year there were two recorded Lost Time Injuries (LTIs). A detailed investigation was undertaken on both incidents and this has proved invaluable in establishing further improvements in our risk analysis of work tasks and assessment of established processes and behaviours.

Overall reporting of hazardous observations increased by 23% compared to 2016 which demonstrates our focus on improvement through the detection and resolution of issues.

The business continues to drive improvements through awareness campaigns and engagement through its committee of Representatives for Safety. This is demonstrated through IGas achieving the ROSPA Presidents Award for an 11<sup>th</sup> consecutive year, showing our commitment to Occupational Health and Safety.

As a continuation of Health and Safety, IGas has successfully completed its first full Safety Report Assessment for its COMAH (Control of Major Accident Hazards Regulations) site at Holybourne in Hampshire, at first submission. There remains an ongoing programme of monitoring and improvements, of which the first visit received a positive assessment.

### Environment and monitoring

We are committed to working with regulators and within local communities to ensure that any activity is done safely and in an environmentally sensitive manner.

Throughout our operations and the lifecycle of our wells, robust environmental protection measures are in place including, where appropriate, the monitoring of ground water, ground gas, soil, air quality and noise before, during and after operational activity.

During site construction, an impermeable membrane is placed across the well pad which provides containment for any spill. The membrane holds all site surface water which is also tested prior to disposal.

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.

Read more about how our industry is regulated on page 12

### Changes in environmental legislation

We have previously been granted installation permits to operate onshore oil and gas production facilities for crude oil unloading, handling or storage, or treatment under the Pollution Prevention and Control (England and Wales) Regulations 2000. During 2008, these permits automatically became environmental permits under the environmental permitting regime. This regime was expanded in 2010 and is now covered by the Environmental Permitting (England and Wales) Regulations 2016 (the 2016 Regulations).

Since 1 October 2013, operators of new onshore oil and/or gas exploration or appraisal facilities require environmental permits where activities include:

- the management of extractive waste, whether or not this involves a waste facility (as a mining waste operation);
- flaring of waste gas using a flare which has the capacity to incinerate over 10 tonnes a day (as an installation);
- a water discharge activity;
- a groundwater activity, such as an indirect discharge of pollutants as part of high pressure high volume hydraulic fracturing; and
- waste being managed that meets the thresholds for radioactivity set out in the 2016 Regulations (as a radioactive substances activity).

The changes in the above regulations required all our existing permits to be varied to meet the requirements of the Environmental Permitting (England and Wales) Regulations 2016.

This comprehensive piece of work involved the collation of a number of workstreams and reports supporting each individual permit application, such as Hydrological Risk Assessments, updated site plans and location maps, Waste Management Plans and revised Site Condition Reports.

We continue to promote deep capability and a safe operating culture across IGas. However, we are not complacent and need to continue to remain vigilant and focused on delivering safe, reliable and compliant operations at all times.

The Strategic Report, as set out on pages 02 to 35, has been approved by order of the Board.

### Cooley (UK) LLP

Secretary  
IGas Energy plc  
Registered Office:  
7 Down Street  
London  
W1J 7AJ

Strong and  
experienced  
leadership

# 2 Corporate Governance

This section of the report addresses how we govern the Company and the actions and responsibilities of the Directors.

**Corporate Governance**

Introduction to Governance	38
Board of Directors	39
The Executive Committee	40
Corporate Governance	41
Directors' Remuneration Report	45
Directors' Report	50

# INTRODUCTION TO GOVERNANCE

## ACCOUNTABLE GOVERNANCE

The Board ensures that high standards of corporate governance are met and a comprehensive risk management and planning process is in place.

### 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 2017

With the potential breaches of debt covenants, the Board spent a significant amount of time at the beginning of the year discussing a capital restructuring with all key stakeholders. This was ultimately successfully completed in April 2017 with new equity of \$57 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, and with a stronger balance sheet, the focus has been on delivering against our strategy of developing our shale portfolio, maintaining steady production and growing our reserves with selective investments, whilst doing this operating responsibly in partnership with local communities and our stakeholders. The Board approved a number of capital investments on our producing assets and progress was made on our development assets in the second half of the year.

### How we manage our Company

#### The Board

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.

#### The Executive Committee

The Executive Committee is responsible for the day to day running of the operational business with a focus on performance management and ensuring that the Group KPIs are being met.

[Read more page 40](#)

#### 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 page 41](#)

#### Remuneration Committee

The Remuneration Committee is responsible for determining and agreeing the remuneration policy for the Executive Director and senior managers.

[Read more page 42](#)

#### 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 page 42](#)



# BOARD OF DIRECTORS

## EXPERIENCED AND EFFECTIVE MANAGEMENT

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.

### Committee member key

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

**Name** Mike McTighe  
**Role** Non-executive Chairman  
**Appointed** 2016

**Skills and experience**  
Mike has held a variety of Non executive director roles in public and private companies over the last 20 years and was on the Board of Ofcom, the UK's communications regulator.

Mike is currently Chairman of Openreach Ltd, Together Financial Services Ltd, Arran isle Ltd and Gortmullan Holdings Ltd

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

**A R N**

**Name** Stephen Bowler  
**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.

**Name** Cuth McDowell  
**Role** Non-executive Director  
**Appointed** 2012

**Skills and experience**  
Cuth has 35 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 Culf Canada

In 1997, Cuth joined Paladin Resources plc, where he served primarily as Finance Director. The company raised approximately £120 million in four separate primary offerings before it was sold to Talisman Energy Inc. for approximately £1.2 billion in 2006. Cuth is currently chairman at Quotall Ltd., an unlisted software development company

**A R**

**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.

**R N**

**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

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 charter holder

**A**

# EXECUTIVE COMMITTEE

## COMPANY STRATEGY AND OPERATIONAL MANAGEMENT

The principal purpose of the Executive Committee, which meets weekly, is the implementation of the Company's strategy and operational work programmes. In turn, the Committee recommends strategic and operating plans to the Board.

The Committee also monitors the operational and financial performance of the business as well as being responsible for the optimisation of resources and the identification, assessment and management of risk within the Company.

**Name** Stephen Bowler  
**Role** Chief Executive Officer

**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.

**Name** Julian Tedder  
**Role** Chief Financial Officer

**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 190 staff across the finance function.

**Name** John Blaymires  
**Role** Chief Operating Officer

**Skills and experience**  
John has 35 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 E&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** Thamala Perera  
**Role** General Counsel  
**Skills and experience**

General Counsel with 17 years' post-qualified experience, over 10 years of which gained at the oil and gas industry. In 2011, following the reverse takeover of Star Energy Group Limited (then a wholly owned subsidiary of PETRONAS) by IGas, Thamala was appointed to lead the legal function of the enlarged group. She was formerly General Counsel of Star Energy responsible for the European Infrastructure Group of PETRONAS with a primary focus on gas storage.

Thamala was called to the Bar of England and Wales in 2000 and during her career has held (among others) positions at the regulator, Ofgem. Thamala holds a Master of Laws (LLM) in European Law from King's College London.

**Name** Peter Foscoe  
**Role** Director of Human Resources

**Skills and experience**  
A Chartered Fellow of the Chartered Institute of Personnel & Development, Peter has over 25 years' experience managing human resource functions in the financial services, telecoms and oil & gas sectors. In addition to 10 years at Merrill Lynch/Bank of America and four years as Head of Human Resources at an AIM listed Hedge Fund, Peter has specialised in compensation & benefits at a number of organisations, including six years as Head of Reward for the Hess Corporation global E&P business.

**Name** Ann-marie Wilkinson  
**Role** Director of Corporate Affairs  
**Skills and experience**  
Appointed in 2013, Ann-marie is a media and communications professional with over two decades of experience having worked extensively as a consultant for a number of financial and corporate public relations/investor relations agencies.

Ann-marie has extensive experience in providing advice on both external and internal communications strategies and has worked with a number of oil and gas companies over the years.

# CORPORATE GOVERNANCE

The Board of Directors support 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

Following the AGM in June 2017, the Board of the Company consists of one Executive Director and four Non-executive Directors; with Mr McTighe and Mr McDowell being considered to be independent. The Senior Independent Non-executive Director is Cuth McDowell and biographies of all the Directors are included within the Annual Report on page 39.

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)
Mike McTighe (Chairman)	16/17
Francis Gugen (Chairman – resigned 14 June 2017)	11/11
Stephen Bowler	16/17
John Blaymires (resigned 14 June 2017)	11/11
Julian Tedder (resigned 14 June 2017)	11/11
Cuth McDowell	17/17
Philip Jackson (appointed 26 April 2017)	7/7
Tushar Kumar (appointed 26 April 2017)	7/7
John Bryant (resigned 14 June 2017)	8/11

The Board met on a significant number of occasions during the year, principally to discuss the proposed capital restructuring of the Group at the beginning of the year. Since the AGM, the Chief Financial Officer and Chief Operating Officer have been invited to attend each meeting of the Board and have participated in all of the meetings during the year.

The Board has the following 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 Mike McTighe and Tushar Kumar (appointed 26 April 2017). Meetings are aligned with the Group's financial reporting calendar and in the year ended 31 December 2017 the Committee met on four 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 year. 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)	4/4
Mike McTighe	3/4
Tushar Kumar (appointed 26 April 2017)	2/2
John Bryant (resigned 14 June 2017)	2/2

# CORPORATE GOVERNANCE CONTINUED

## 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; and
- The Committee keeps under review the external auditors' 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 2017

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

- Review of the 2016 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 2017 interim results announcement 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
- Review of the planning for the 2017 Annual Report and approving the approach being taken by the Group's auditors.

## Remuneration Committee

- The Committee comprises only Non-executive Directors, being chaired by Philip Jackson (appointed 26 April 2017) and having as other members Mike McTighe and Cuth McDowell. The Committee met on four occasions in the year ended 31 December 2017. The Chief Executive Officer and Human Resources Director are 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)
Philip Jackson (Chairman – appointed 26 April 2017)	2/2
John Bryant (resigned 14 June 2017)	2/2
Mike McTighe	4/4
Cuth McDowell	4/4

## 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 2017

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

- Review of long-term incentive plans and approving the issue of awards under the Executive Incentive Plan with revised vesting conditions to senior management in the second half of the year following the completion of the restructuring of the Company in 2017, and
- Review of performance in the year ended 31 December 2017 and recommending to the Board that a bonus of 25% be paid to all employees of the Group.

## Nomination Committee

The Nomination Committee is chaired by the Chairman, Mike McTighe, and its other members are the Senior Independent Non-executive Director, Cuth McDowell 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)
Mike McTighe (Chairman)	2/2
Francis Gugen (Chairman – resigned 14 June 2017)	2/2
Cuth McDowell	2/2
John Bryant (resigned 14 June 2017)	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 2017

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

- Proposing the appointment of Philip Jackson and Tushar Kumar to the Board as Non-executive Directors following the completion of the financial restructuring in April 2017;
- Proposing a reduction in the size of the Board following the resignation of Francis Gugen, John Bryant, John Blaymires and Julian Tedder at the conclusion of the AGM in June 2017; and
- Ensuring that appropriate succession plans are put in place for senior management.

### Strategy Committee

The Strategy Committee was chaired by Mike McTighe, and its other members were 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 in 2016 and following the successful financial restructuring in April 2017 the Committee was disbanded. The Committee met as required during the year.

### Strategy Committee membership

Committee member	Meetings attended (out of a total possible)
Mike McTighe (Chairman)	13/17
Cuth McDowell	16/17
Stephen Bowler	16/17
Julian Tedder	16/17

### Summary of the Committee's responsibilities

The Committee's responsibilities included 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 2017

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;
- Discussing equity investment from a strategic investor and supporting of their due diligence exercise of the Group. Discussing proposals for additional equity with institutional investors;
- Discussing the restructuring strategy with the secured and unsecured bondholders and getting their support to the proposals and the confirmation of their vote in favour of the proposals at Bondholder meetings;
- 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.

# CORPORATE GOVERNANCE CONTINUED

## 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 ongoing 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 and bondholders

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. Other senior management, however, regularly speak to investors and analysts during the year. Company circulars and press releases have also been issued throughout the year for the purpose of keeping investors informed about the Group's progress and in accordance with AIM regulations.

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

The 2016 Directors' Remuneration Report noted that the combination of continued low oil prices and ongoing financial restructuring of the Company meant it was not considered appropriate to make pay awards, issue a cash payment under the annual short term incentive bonus programme or make a second annual award under the long term incentive scheme known as the Executive Incentive Plan ("EIP"), the mechanics of which were detailed in the 2016 Annual Report at that time.

Subsequent to the completion of the financial restructuring in April 2017 and the AGM in June 2017 the Board approved a 2% pay award and a 10% cash bonus payment to staff. The CEO, Stephen Bowler, declined to accept his pay award.

In October 2017, following a benchmarking analysis performed by PwC, the Remuneration Committee proposed a number of changes to the annual cash bonus scheme, which better align the bonuses of the CEO and senior executives to the Company's Key Performance Indicators ("KPIs") and which, in the event of superior performance in any bonus period, introduce an element of staff retention through the use of stock awards. Although the maximum bonus which the CEO might receive remains unchanged at 100% of base salary, other senior executives saw their maximum bonus potential increase (typically to 50% or 75% of base salary) with the level of pay-out for 2017 determined by reference to their annual performance appraisal scores. For 2018 bonuses will additionally be moderated by reference to individual targets set by reference to the senior executive's influence on the delivery of the KPIs. In approving the recommendations the Board agreed that 50% of any bonus in excess of £30,000 be paid in the form of restricted stock and subject to a minimum holding period.

The Company's own review also considered the performance criteria associated with awards under the EIP, noting that 'base' awards made in 2016 did not require an absolute share price appreciation as a condition of vesting. It was noted that market practice in this regard was changing and that a majority of organisations in the E&P sector now operate a long term share plan which requires some level of share price appreciation before an award vests (either in part or in full). Approving the Remuneration Committee's recommendations, the Board stipulated that no part of the 2017 EIP award will vest in 2020 unless a share price hurdle of £1.13 is met or exceeded.

## 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 Director are each aligned to the key drivers of the business strategy, thereby creating a strong alignment of interest between staff, Executive Directors and shareholders.

The 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.

# DIRECTORS' REMUNERATION REPORT CONTINUED

The elements of the reward package are detailed below:

Element of reward	Operation and performance conditions	Maximum opportunity
<b>Base salary</b> The purpose of the base salary is to: <ul style="list-style-type: none"> <li>• help recruit and retain key individuals;</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>
<b>Other benefits including pension</b>	<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 (currently 50% of any award in excess of £30,000). 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 (and where applicable, shares) are not pensionable. 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 Awards 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 Annual Awards 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 Director 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>



Element of reward	Operation and performance conditions	Maximum opportunity																						
<b>Executive Incentive Plan (“EIP”)</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><th>Share price target*</th><th>Multiplier</th></tr><tr><td>£10.00</td><td>1.50 x shares awarded</td></tr><tr><td>£15.00</td><td>2.00 x shares awarded</td></tr></table> <p>For the second share award (October 2017) the multiplier was set as follows:</p> <table><tr><th>Share price target</th><th>Multiplier</th></tr><tr><td>&lt; £1.13</td><td>0.00 x shares awarded</td></tr><tr><td>£1.13 – £1.25</td><td>0.25 x shares awarded</td></tr><tr><td>£1.26 – £1.39</td><td>0.50 x shares awarded</td></tr><tr><td>£1.40 – £1.54</td><td>0.75 x shares awarded</td></tr><tr><td>£1.55 – £1.74</td><td>1.00 x shares awarded</td></tr><tr><td>£1.75 – £1.96</td><td>1.50 x shares awarded</td></tr><tr><td>&gt; £1.96</td><td>2.00 x 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>	Share price target*	Multiplier	£10.00	1.50 x shares awarded	£15.00	2.00 x shares awarded	Share price target	Multiplier	< £1.13	0.00 x shares awarded	£1.13 – £1.25	0.25 x shares awarded	£1.26 – £1.39	0.50 x shares awarded	£1.40 – £1.54	0.75 x shares awarded	£1.55 – £1.74	1.00 x shares awarded	£1.75 – £1.96	1.50 x shares awarded	> £1.96	2.00 x shares awarded	<p>Annual award to the current Executive Director 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>
Share price target*	Multiplier																							
£10.00	1.50 x shares awarded																							
£15.00	2.00 x shares awarded																							
Share price target	Multiplier																							
< £1.13	0.00 x shares awarded																							
£1.13 – £1.25	0.25 x shares awarded																							
£1.26 – £1.39	0.50 x shares awarded																							
£1.40 – £1.54	0.75 x shares awarded																							
£1.55 – £1.74	1.00 x shares awarded																							
£1.75 – £1.96	1.50 x shares awarded																							
> £1.96	2.00 x shares awarded																							
<b>Executive Director Retention Plan (“EDRP”)</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 175,000* ordinary shares and J Blaymires was made an award of options over 150,000* 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>																						

\* Re stated to account for the Share Capital Consolidation & Sub Division 14 June 2017

# DIRECTORS' REMUNERATION REPORT CONTINUED

## 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 2017 was 85.88p per share. The highest price during the year was 230.32p per share and the lowest share price during the year was 49.00p per share (re-stated to account for the Share Capital Consolidation & Sub-Division 14 June 2017).

### Current arrangements in financial year (Audited)

#### Executive Directors

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 were as follows:

	Year ended 31 December 2017						Year ended 31 December 2016					
	Salary £'000	Payment in lieu of pension £'000	Bonus (Cash) £'000	Bonus (Shares) £'000	Pensions £'000	Total £'000	Salary £'000	Payment in lieu of pension £'000	Bonus (Cash) £'000	Bonus (Shares) £'000	Pensions £'000	Total £'000
Executive Directors												
S Bowler – CEO	350	37	94	29	10	520	350	27	–	–	20	397
J Blaymires – COO	128	16	35	9	–	188	280	27	–	–	–	307
J Tedder – CFO <sup>2</sup>	114	11	32	8	5	170	250	17	–	–	16	283
Total – Executive Directors	592	64	161	46	15	878	880	71	–	–	36	987

J Blaymires resigned from the Board with effect from 14 June 2017.

J Tedder resigned from the Board with effect from 14 June 2017.

On 16 October 2017, S Bowler was made a Base Award under the 2016 EIP scheme over 388,889 ordinary shares in the Company.

As at 31 December 2017, 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	Number of options			As at 31 December 2017	Earliest vesting date	Lapse date
		1 January 2017	Granted	Exercised	Lapsed			
S Bowler	13/07/2015	175,000*	–	–	–	175,000	13/07/2016	13/07/2023
J Blaymires**	13/07/2015	150,000*	–	–	–	150,000	13/07/2016	13/07/2023

2011 Long Term Incentive Plan	Date of grant	At	Number of options			As at date of resignation from the Board	Earliest vesting date	Lapse date
		1 January 2017	Granted	Exercised	Lapsed/ Waived			
J Tedder**	25/11/2015	65,790*	–	–	–	65,790	25/11/2018	25/11/2025

2016 Executive Incentive Plan	Date of grant	At	Number of shares			As at 31 December 2017	Earliest vesting date	Lapse date
		1 January 2017	Granted	Exercised	Lapsed			
S Bowler	30/03/2016	74,076*	–	–	–	74,076	30/03/2019	30/03/2026
	16/10/2017	–	388,889	–	–	388,889	16/10/2020	16/10/2027
		74,076*	388,889	–	–	462,965		
J Blaymires**	30/03/2016	59,261*	–	–	–	59,261	30/03/2019	30/03/2026
J Tedder**	30/03/2016	52,912*	–	–	–	52,912	30/03/2019	30/03/2026

\* Re-stated to account for the Share Capital Consolidation & Sub-Division 14 June 2017

\*\* As at date of resignation from the Board

### 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

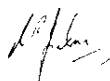
	Year ended 31 December 2017				Year ended 31 December 2016			
	Emoluments £'000	Taxable benefits £'000	Pensions £'000	Total £'000	Emoluments £'000	Taxable benefits £'000	Pensions £'000	Total £'000
Non-executive Directors								
F Gugen	60	–	–	60	105	–	–	105
R McTighe <sup>2</sup>	100	–	–	100	41	–	–	41
J Bryant <sup>1</sup>	43	–	–	43	75	–	–	75
C McDowell	60	–	–	60	60	–	–	60
P Jackson <sup>3</sup>	30	–	–	30	–	–	–	–
T Kumar <sup>3</sup>	25	–	–	25	–	–	–	–
Total – Non-executive Directors	318	–	–	318	281	–	–	281

<sup>1</sup> F Gugen resigned from the Board with effect from 14 June 2017

<sup>2</sup> R McTighe was appointed to the Board on 3 August 2016

<sup>3</sup> J Bryant resigned from the Board with effect from 14 June 2017

<sup>3</sup> P Jackson and T Kumar were both appointed to the Board with effect from 26 April 2017. Under the terms of their appointments, IGas Energy plc pays an annual fee (invoiced quarterly in advance) to Keron Capital for £55,000 in respect of P Jackson and £45,000 in respect of T Kumar



### Philip Jackson

Chairman Remuneration Committee

20 March 2018

# DIRECTORS' REPORT

The Directors present their report together with the Group and Parent Company financial statements for the year ended 31 December 2017.

## 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 a dividend for the year (year 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:

R McTighe	Non-executive Chairman
F Gugen	Non-executive Chairman (resigned 14 June 2017)
S Bowler	Chief Executive Officer
J Blaymires	Chief Operating Officer (resigned 14 June 2017)
J Tedder	Chief Financial Officer (resigned 14 June 2017)
C McDowell	Non-executive
P Jackson	Non-executive (appointed 26 April 2017)
T Kumar	Non-executive (appointed 26 April 2017)
J Bryant	Non-executive (resigned 14 June 2017)

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

	31 December 2017 Ordinary 0.002p Shares		31 December 2016 Ordinary 0.00p Shares	
	Number	%	Number	%
R McTighe	583,056	0.47	250,000	0.08
F Gugen (resigned 14 June 2017)	n/a	n/a	27,615,764	9.10
S Bowler	61,262	0.05	131,348	0.04
J Blaymires (resigned 14 June 2017)	n/a	n/a	81,431	0.03
J Tedder (resigned 14 June 2017)	n/a	n/a	161,066	0.05
C McDowell	219,170	0.18	-	-
P Jackson (appointed 26 April 2017)	-	-	n/a	n/a
T Kumar (appointed 26 April 2017)	-	-	n/a	n/a
J Bryant (resigned 14 June 2017)	n/a	n/a	59,045	0.02

The shareholdings as at 31 December 2016 in the table above are before approval of the share consolidation and subdivision tabled at the Annual General Meeting on 14 June 2017. Following the passing of the share consolidation and subdivision resolution, every 200 existing ordinary shares of 0.0001 pence each ("Existing Ordinary Shares") that were in issue as at 6.00pm on 14 June 2017 were consolidated into one new ordinary share of 0.02 pence each and immediately subdivided into 10 ordinary shares of 0.002 pence (the "New Ordinary Shares"). Other than the change in nominal value, the New Ordinary Shares arising on implementation of the share consolidation had the same rights as the Existing Ordinary Shares, including voting and other rights.

In addition to the table above, in January 2018, S Bowler subscribed to his full entitlement under the Group's share scheme and accordingly was allotted 1,965 shares.

## Rotation and re-election of Directors

In accordance with the Articles of Association, C McDowell and S Bowler retire by rotation and, being eligible, offer themselves for re-election.

## 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 20 March 2018, 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	%
Kerogen General Partner II Limited	33,964,100	27.8
KOG Investments S.A.R.L.	18,207,480	14.9
Royal London AM	10,155,760	8.4
PLLG Investments Limited	5,163,985	4.2
Sand Grove Capital	4,566,084	3.7

### 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 (year ended 31 December 2016: £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 reappoint 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

20 March 2018

# Solid financial progress and growth

# 3 Financial Statements

## Financial Statements

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

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and Parent Company financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Parent Company and of the profit or loss of the Group and Parent Company for that period. In preparing the financial statements, the Directors are required to:

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

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group and Parent Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and Parent Company and enable them to ensure that the financial statements comply with the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

The Directors are also responsible for safeguarding the assets of the Group and Parent Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

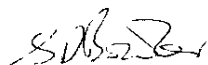
The Directors are responsible for the maintenance and integrity of the Parent Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

The Directors consider that the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group and Parent Company's performance, business model and strategy.

Each of the Directors, whose names and functions are listed in the Directors' Report, confirm that, to the best of their knowledge:

- the Parent Company financial statements, which have been prepared in accordance with IFRSs as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit of the Company;
- the Group financial statements, which have been prepared in accordance with IFRSs as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit of the Group; and
- the Directors' Report includes a fair review of the development and performance of the business and the position of the Group and Parent Company, together with a description of the principal risks and uncertainties that it faces.

On behalf of the Board,



**Stephen Bowler**  
Chief Executive Officer  
20 March 2018



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

## Report on the audit of the Group financial statements

### 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 2017 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Accounts (the "Annual Report"), which comprise: the Consolidated Balance Sheet as at 31 December 2017; the Consolidated Income Statement and Consolidated Statement of Comprehensive Income, the Consolidated Cash Flow Statement, and the Consolidated Statement of Changes in Equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Independence

We remained independent of the Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

## Our audit approach

### Overview

Materiality	<ul style="list-style-type: none"> <li>• Overall Group materiality: £1,200,000 (2016: £1,100,000), based on 0.5% of total assets.</li> </ul>
Audit scope	<ul style="list-style-type: none"> <li>• We identified six components out of the Group's 28 separate statutory entities/combinations thereof, which were selected due to their size and risk characteristics.</li> <li>• Specific audit procedures were performed on certain balances and transactions at a further three units.</li> <li>• This enabled us to obtain coverage over 99% of Group consolidated revenue and 94% of Group consolidated total assets.</li> </ul>
Key audit matters	<ul style="list-style-type: none"> <li>• Carrying value of conventional oil and gas assets.</li> <li>• Carrying value of unconventional assets and goodwill.</li> <li>• Completeness and valuation of the decommissioning provision.</li> <li>• Basis of going concern.</li> <li>• Refinancing.</li> </ul>

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

## The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we looked at where the Directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain.

As in all of our audits we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the Directors that represented a risk of material misstatement due to fraud.

## Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. This is not a complete list of all risks identified by our audit.

Key audit matter	How our audit addressed the key audit matter
<p>Carrying value of conventional oil and gas assets</p> <p>See page 65 to 72 Significant accounting judgements and estimates and note 11 Property, plant and equipment.</p> <p>Conventional oil and gas assets totalled £91.1 million. These represent 98% of the Group's total property, plant and equipment. We focused on this area due to the material nature of the balance, the judgement involved in assessing for impairment and the current economic climate.</p>	<p>We have evaluated the discounted cash flow model prepared by management which supports the carrying value of the CGU's (North, South and Scotland).</p> <p>We agreed the forecast oil price to third party consensus forecasts. We concluded management's price forecast was reasonable.</p> <p>Management's production forecasts, another key assumption, were reconciled to the independent reserves report prepared by Degolyer and Macnaughton ("D&amp;M") in July 2016 and updated for production during the year.</p> <p>We have analysed forecast production changes from the D&amp;M report and challenged management on the feasibility of planned capital projects which are predicted to increase production, and we consider these assumptions to be supportable.</p> <p>In addition we independently benchmarked inputs into the weighted average cost of capital calculation used to calculate the discount rate used in the model, and found these inputs to be consistent with management's.</p> <p>Finally we considered the adequacy of management's disclosure of the key judgements and sensitivities in relation to the impairment assessment in note 11. These were deemed to be in line with the requirements of IAS 36.</p>
<p>Carrying value of unconventional assets and goodwill</p> <p>See page 65 to 72 Significant accounting judgements and estimates and note 10 Intangible exploration and evaluation asset.</p> <p>The carrying value of the Group's unconventional assets was £115.1 million, in addition the Group has £4.8 million of goodwill assigned to the unconventional assets acquired on the acquisition of Dart Energy Limited in October 2014. These represent 94% of the Group's total intangible exploration and evaluation assets. We focused on this area due to the material nature of the balance, the judgement involved in assessing for impairment and the current economic climate.</p>	<p>We have evaluated management's valuation which supports the carrying value of the unconventional assets and assigned goodwill.</p> <p>The methodology used to determine the fair value of the unconventional assets and goodwill was determined by reference to the price per bcf paid in recent transactions, and estimates of resources prepared by D&amp;M. We consider these assumptions to be supportable.</p>

#### Completeness and valuation of the decommissioning provision

See page 65 to 72 Significant accounting judgements and estimates and note 20 Provisions.

A provision of £42.1 million has been made for the abandonment of fields and the gathering centres. The abandonment and decommissionings are expected to take place between 1 and 31 years from the year end.

We have reviewed the completeness of the number of wells included in management's estimate.

We have assessed management's cost per well estimate and have reviewed the results of actual decommissioning's costs over the previous three years which support management's estimate.

We have benchmarked the risk free rate used by management compared with industry practice.

Based on the procedures performed we concur with management that their assessment of the decommissioning provision is reasonable.

#### Basis of going concern

See page 65 to 72 Significant accounting judgements and estimates.

During the year, the strength of the Group's balance sheet was improved significantly by the capital restructuring which was completed in April 2017 and as a result management concluded that the Group is a going concern for at least 12 months from the date of signing the financial statements.

We obtained management's cash flow forecast which supports their use of the going concern basis of accounting. We tested the integrity of this model, including mathematical accuracy, and confirmed key assumptions such as forecast sales revenue and operating costs were consistent with impairment models (discussed above). Any differences were investigated. We also considered historical accuracy of management's forecasting.

Based on the work performed we concurred with management's assumption that Group is a going concern for at least 12 months from the date of signing the financial statements.

#### Refinancing

See note 25 Share Capital.

At 31 December 2016, the Company had secured and unsecured bonds, listed on Oslo Bors, of £125 million and announced to the market that the Company expected to be non-compliant with its leverage covenants at 31 December 2016 and that it also expected to breach its liquidity covenant in late March 2017. The Group engaged with their bondholders, a strategic investor and other stakeholders to consider possible restructure options to remedy the expected covenants breach and also achieve a capital structure that will be sustainable in the current oil price environment. In March 2017, the Group announced the final terms of the restructuring and fundraising and this was subsequently approved by the secured and unsecured bondholders and shareholders on 3 April 2017. This resulted in the extinguishment of a significant portion of the debt and transaction cost, a portion of which were capitalised against the new debt and equity.

We have identified two key judgements in assessing the accounting for the restructuring and fundraising.

We firstly assessed whether there was an extinguishment or modification of the bonds. Due to the substantially revised bond terms we concur with management's that this was an extinguishment.

Secondly we considered the treatment of the transaction costs and concur with management's treatment whereby:

- only directly attributable costs have been deducted from equity;
- directly attributable transaction costs have been allocated between the extinguished and new bonds on a reasonable basis; and
- other transaction costs have been expensed.

Accordingly, of the Group's 28 reporting units, we identified 6 which, in our view, required an audit of their complete financial information, either due to their size or their risk characteristics. This included the main conventional oil & gas operating subsidiaries, the main unconventional license holding subsidiaries, as well as the Parent Company. Specific audit procedures on certain balances and transactions were performed at a further 3 reporting units. Because the Group includes a number of relatively small reporting units, this gave us coverage over 99% of consolidated revenue and 94% coverage over total assets. This, together with additional procedures performed at the Group level, gave us the evidence we needed for our opinion on the Group financial statements as a whole.

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Overall Group materiality	£1,200,000 (2016: £1,100,000).
How we determined it	0.5% of total assets.
Rationale for benchmark applied	We believe that total assets are reflective of the entity's current operations and has more relevance than earnings to shareholders

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £60,000 (2016: £55,000) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

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

- the Directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Group's ability to continue to adopt the going concern basis of accounting for a period of at least 12 months from the date when the financial statements are authorised for issue.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Group's ability to continue as a going concern.

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The Directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

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

With respect to the Strategic Report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

### **Strategic Report and Directors' Report**

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 December 2017 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the Group and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report.

### **Responsibilities for the financial statements and the audit**

#### **Responsibilities of the Directors for the financial statements**

As explained more fully in the Directors' Statement of Responsibilities set out on page 54, the Directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The Directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

#### **Auditors' responsibilities for the audit of the financial statements**

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

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

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

### **Use of this report**

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.

### **Other required reporting**

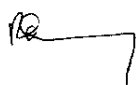
#### **Companies Act 2006 exception reporting**

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
- certain disclosures of Directors' remuneration specified by law are not made.

We have no exceptions to report arising from this responsibility.

We have reported separately on the Company financial statements of IGas Energy plc for the year ended 31 December 2017.



#### **Richard Spilsbury**

(Senior Statutory Auditor)

for and on behalf of PricewaterhouseCoopers LLP

Chartered Accountants and Statutory Auditors

London

20 March 2018

# CONSOLIDATED INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2017

	Notes	Year ended 31 December 2017 £000	Year ended 31 December 2016 £000
Revenue	2	35,793	30,471
<b>Cost of sales:</b>			
Depletion, depreciation and amortisation		(7,832)	(6,323)
Other costs of sales		(21,435)	(20,857)
		<b>(29,267)</b>	<b>(27,180)</b>
<b>Gross profit</b>		<b>6,526</b>	<b>3,291</b>
Administrative expenses		(6,441)	(11,406)
Redundancy costs	4	(212)	(557)
Exploration and evaluation assets written off	10	(70)	(4,485)
Loss on oil price derivatives	3	(2,050)	(3,496)
Other income	5	214	660
<b>Operating loss</b>	3	<b>(2,033)</b>	<b>(15,993)</b>
Finance income	6	277	277
Finance costs	6	(6,428)	(29,057)
Gain on restructuring	28	4,935	-
<b>Loss from continuing activities before tax</b>		<b>(3,249)</b>	<b>(44,773)</b>
Income tax credit	7	19,105	13,006
<b>Profit/(loss) after tax from continuing operations attributable to equity</b>		<b>15,856</b>	<b>(31,767)</b>
Loss after tax from discontinued operations	16	(375)	(1,144)
<b>Net profit/(loss) attributable to shareholders' equity</b>		<b>15,481</b>	<b>(32,911)</b>
<u>Profit/(loss) attributable to equity shareholders:</u>			
Basic earnings/(loss) per share	8	12.76p	(219.74p)
Diluted earnings/(loss) per share	8	12.46p	(219.74p)

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2017

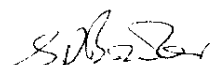
	Year ended 31 December 2017 £000	Year ended 31 December 2016 £000
<b>Profit/(loss) for the year</b>	<b>15,481</b>	<b>(32,911)</b>
Other comprehensive income/(loss) for the year:		
Currency translation adjustments recycled to the income statement	-	105
Other currency translation adjustments	931	(1,231)
<b>Total comprehensive income/(loss) for the year</b>	<b>16,412</b>	<b>(34,037)</b>

The notes on pages 64 to 92 form an integral part of these financial statements.

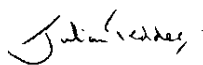
# CONSOLIDATED BALANCE SHEET AS AT 31 DECEMBER 2017

	Notes	31 December 2017 £000	31 December 2016 £000
<b>ASSETS</b>			
<b>Non-current assets</b>			
Goodwill	9	4,801	4,801
Intangible exploration and evaluation assets	10	115,130	112,448
Property, plant and equipment	11	93,158	97,709
Restricted cash	15	303	-
Deferred tax asset	7	16,900	-
		<b>230,292</b>	214,958
<b>Current assets</b>			
Inventories	13	1,322	1,270
Trade and other receivables	14	7,459	7,015
Cash and cash equivalents	15	15,727	24,946
Restricted cash	15	126	-
		<b>24,634</b>	33,231
<b>Total assets</b>		<b>254,926</b>	248,189
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Trade and other payables	17	(6,558)	(8,170)
Current tax liabilities		(358)	(1,318)
Borrowings	18	(1,687)	(6,084)
Other liabilities	19	-	(11)
Derivative financial instruments	24	(2,749)	(876)
		<b>(11,352)</b>	(16,459)
<b>Non-current liabilities</b>			
Borrowings	18	(19,553)	(118,495)
Other creditors	17	(303)	-
Deferred tax provision	7	-	(1,779)
Other provisions	20	(42,117)	(40,924)
		<b>(61,973)</b>	(161,198)
<b>Total liabilities</b>		<b>(73,325)</b>	(177,657)
<b>Net assets</b>		<b>181,601</b>	70,532
<b>EQUITY</b>			
<b>Capital and reserves</b>			
Called up share capital	25	30,333	30,282
Share premium account	26	102,342	32
Foreign currency translation reserve		(7,059)	(7,990)
Other reserves	27	29,994	28,757
Accumulated surplus		25,991	19,451
<b>Total equity</b>		<b>181,601</b>	70,532

These financial statements were approved and authorised for issue by the Board on 20 March 2018 and are signed on its behalf by:



**Stephen Bowler**  
Chief Executive Officer



**Julian Tedder**  
Chief Financial Officer

The notes on pages 64 to 92 form an integral part of these financial statements.

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2017

	Called up share capital (note 25) £000	Share premium account (note 26) £000	Capital redemption reserve £000	Foreign currency translation reserve* £000	Other reserves** (note 27) £000	Accumulated (deficit)/ surplus £000	Total equity £000
At 1 January 2016	29,882	121,623	64,882	(6,864)	23,544	(134,296)	98,771
Loss for the year	-	-	-	-	-	(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)
At 31 December 2016	30,282	32	-	(7,990)	28,757	19,451	70,532
Profit for the year	-	-	-	-	-	15,481	15,481
Employee share plans (note 27)	-	-	-	-	1,333	-	1,333
Forfeiture of LTIPs under the employee share plan (note 27)	-	-	-	-	(85)	56	(29)
Lapse of LTIPs under the employee share plan	-	-	-	-	(11)	11	-
Issue of shares and conversion of debt (note 25)	51	93,302	-	-	-	-	93,353
Reserves transfer on equitisation of unsecured bonds***	-	9,008	-	-	-	(9,008)	-
Currency translation adjustments	-	-	-	931	-	-	931
<b>At 31 December 2017</b>	<b>30,333</b>	<b>102,342</b>	<b>-</b>	<b>(7,059)</b>	<b>29,994</b>	<b>25,991</b>	<b>181,601</b>

\* 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

\*\* Other reserves include: 1) E P/MRP/LTI/VCP/EDRP 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

\*\*\* The transfer on equitisation of unsecured bonds has arisen due to the unsecured bonds being issued at 60% of par and represents the difference between the nominal value of the shares issued and the book value of the debt exchanged

The notes on pages 64 to 92 form an integral part of these financial statements.



# CONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2017

	Notes	Year ended 31 December 2017 £000	Year ended: 31 December 2016 £000
<b>Cash flows from operating activities:</b>			
Loss before tax		(3,249)	(44,773)
Write off deferred consideration	5	–	(420)
Net gain on capital restructuring	28	(4,935)	–
Depletion, depreciation and amortisation	11	7,968	6,474
Decommissioning costs incurred	20	–	(418)
Other provisions utilised	20	(39)	–
Share based payment charge	27	1,056	3,499
Exploration and evaluation assets written off	10	70	4,485
Unrealised loss on oil price derivatives	3	1,872	11,969
Finance income	6	(277)	(277)
Finance costs	6	6,428	29,057
Other non-cash adjustments		24	(13)
Operating cash flow before working capital movements		8,918	9,583
Decrease in trade and other receivables and other financial assets		40	3,366
(Decrease)/increase in trade and other payables, net of accruals related to investing activities		(2,084)	698
Increase in inventories		(52)	(176)
Cash generated from continuing operating activities		6,822	13,471
Cash generated from/(used in) discontinued operating activities		422	(489)
Taxation paid – continuing operating activities		(571)	(559)
<b>Net cash generated from operating activities</b>		<b>6,673</b>	<b>12,423</b>
<b>Cash flows from investing activities:</b>			
Purchase of intangible exploration and evaluation assets		(2,591)	(2,304)
Purchase of property, plant and equipment		(3,679)	(6,509)
Disposal of subsidiary		–	(171)
Disposal of oil and gas assets		14	22
Interest received		27	34
Cash used in continuing investing activities		(6,229)	(8,928)
Cash used in discontinued investing activities		–	(177)
<b>Net cash used in investing activities</b>		<b>(6,229)</b>	<b>(9,105)</b>
<b>Cash flows from financing activities:</b>			
Cash proceeds from issue of ordinary share capital	25	77	136
Cash proceeds from the issue of shares in capital restructuring	28	46,789	–
Cash paid in settlement of secured bonds	28	(39,337)	–
Fees paid relating to capital restructure	28	(4,311)	–
Repayment and repurchase of borrowings	28	(5,423)	(4,916)
Sale of bonds		–	4,914
Interest paid		(5,917)	(11,570)
<b>Net cash used in financing activities</b>		<b>(8,122)</b>	<b>(11,436)</b>
<b>Net decrease in cash and cash equivalents in the year</b>		<b>(7,678)</b>	<b>(8,118)</b>
Net foreign exchange difference		(1,541)	4,450
Cash and cash equivalents at the beginning of the year		24,946	28,614
<b>Cash and cash equivalents at the end of the year</b>	15	<b>15,727</b>	<b>24,946</b>

The notes on pages 64 to 92 form an integral part of these financial statements.

# CONSOLIDATED FINANCIAL STATEMENTS – NOTES

## FOR THE YEAR ENDED 31 DECEMBER 2017

### 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 2017 and with the Companies Act 2006. The accounts were approved by the Board and authorised for issue on 20 March 2018. 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.

#### New and amended standards and interpretations

During the year, the Group adopted the following new and amended IFRSs which were applicable to the Group's activities as of 1 January 2017 but not yet endorsed by the EU.

- Amendments to IAS 7 ‘Cash flow statements’, regarding the Disclosure initiative (Not yet EU endorsed)
- Amendments to IAS 12 ‘Income taxes’, regarding recognition of deferred tax assets for unrealised losses. (Not yet EU endorsed)
- Annual improvements 2014-2016 IFRS 12 ‘Disclosure of interest in other entities’ (Not yet EU endorsed)

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 2018 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 2	Classification and measurement of share-based payment transactions – Amendment to IFRS 2	1 January 2018*
IFRS 15	Revenue from Contracts with Customers	1 January 2018*
IFRS 9	Financial Instruments	1 January 2018*
IFRS 16	Leases	1 January 2019*
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 indefinitely*

\* The effective dates stated above are those given in the original IASB/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 their 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 has assessed the impact of IFRS 15 and IFRS 9 amendments, and considers these not to be significant. The Group is still assessing the impact of IFRS 16 amendments on its financial position. The Group does not anticipate adopting these standards and interpretations ahead of their effective dates.

#### (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 28 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 2017, the Group comprised the Company and entities controlled by IGas Energy plc (its subsidiaries). No new subsidiaries were acquired during the year.

## 1 Accounting policies continued

### (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) 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 (i) 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.

### (f) 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 (i) 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 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 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.

# CONSOLIDATED FINANCIAL STATEMENTS – NOTES

## FOR THE YEAR ENDED 31 DECEMBER 2017 CONTINUED

### 1 Accounting policies continued

#### (f) Significant accounting judgements and estimates continued

##### 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.

##### 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.

#### (g) 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.

#### (h) 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 an agent for the producer.

## 1 Accounting policies continued

### (i) 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 are not reversed in future periods.

#### 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 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, when there are no substantive plans for continued exploration or evaluation of an area, when the Group decides to abandon an area, or where development is likely to proceed in an area but 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 – oil and gas properties

- 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.
- Oil and gas properties are depleted either on a unit of production basis, commencing at the start of commercial production, or 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.
- 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.

# CONSOLIDATED FINANCIAL STATEMENTS – NOTES

## FOR THE YEAR ENDED 31 DECEMBER 2017 CONTINUED

### 1 Accounting policies continued

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

##### Impairment of oil and gas properties

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. Any impairment in value is charged to the income statement.

Impairment tests 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.

**1 Accounting policies continued****(j) 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.

**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**

Warrants which do not qualify as equity instruments under IAS 39 due to the variable number of shares that would be issued in each case 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**

Provision for impairment of financial assets 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. Impaired debts are derecognised when they are assessed as uncollectible.

# CONSOLIDATED FINANCIAL STATEMENTS – NOTES

## FOR THE YEAR ENDED 31 DECEMBER 2017 CONTINUED

### 1 Accounting policies continued

#### (k) 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 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.

#### (l) 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.

#### 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.

#### (m) Inventories

Inventories, consisting of crude oil, and drilling and maintenance materials, are stated at the lower of cost and net realisable value. Costs comprise costs of purchase, costs 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 ordinarily inter-changeable items.

#### (n) Taxation

The tax charge/credit includes current 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 as it excludes items of income or expense that are taxable or deductible in different periods and 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 and the carrying amount is reviewed at each reporting date. 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 laws that have been enacted or substantively enacted at the reporting date. Deferred tax relating to items recognised outside profit or loss are recognised in correlation to the underlying transaction, either in other comprehensive income or directly in equity.



## 1 Accounting policies continued

### (o) 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.

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.

### (p) 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.

### (q) 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.

### (r) Foreign currency

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

# CONSOLIDATED FINANCIAL STATEMENTS – NOTES

## FOR THE YEAR ENDED 31 DECEMBER 2017 CONTINUED

### 1 Accounting policies continued

#### (s) 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 their 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.

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

All revenue, which represents turnover, arises solely within the United Kingdom and relates to external parties.

	Year ended 31 December 2017 £000	Year ended 31 December 2016 £000
Oil sales	35,289	30,009
Electricity sales	504	462
	<b>35,793</b>	<b>30,471</b>

Revenues of approximately £19.3 million and £15.9 million were derived from the Group's two largest customers (2016: £17.6 million and £12.4 million).

### 3 Operating loss

	Year ended 31 December 2017 £000	Year ended 31 December 2016 £000
Operating loss is stated after charging:		
Staff costs	12,781	16,050
Depletion, depreciation and amortisation	7,957	6,474
Refinancing costs	—	2,969
Auditors' remuneration:		
Audit of the financial statements	300	180
Audit of the Company's subsidiaries	127	60
Taxation advisory services	102	10
Other non-audit services	163	179*
Operating lease charges:		
Land and buildings	2,093	2,015
Other	229	256

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

### Loss on oil price derivatives

	Year ended 31 December 2017 £000	Year ended 31 December 2016 £000
Realised (loss)/gain on maturity	(178)	8,473
Unrealised loss	(1,872)	(11,969)
	(2,050)	(3,496)

### 4 Employee information

	Year ended 31 December 2017 £000	Year ended 31 December 2016 £000
Staff costs comprised:		
Wages and salaries	9,648	9,013
Social security costs	1,129	1,010
Other pension costs	773	802
Employee share based payment cost	1,231	5,225
	12,781	16,050
	No.	No.
Average monthly number of employees including Directors in the year		
Operations, including services	118	116
Administrative	42	46
	160	162

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 £0.2 million (2016: £0.6 million) of redundancy costs for the year.

# CONSOLIDATED FINANCIAL STATEMENTS – NOTES

## FOR THE YEAR ENDED 31 DECEMBER 2017 CONTINUED

### 5 Other income

Other income includes £0.2 million relating to rental income (2016: £0.2 million relating to the rental income and £0.4 million relating to the release of contingent deferred consideration as described in note 21)

### 6 Finance income and costs

	Year ended 31 December 2017 £000	Year ended 31 December 2016 £000
Finance income:		
Interest on short-term deposits	26	63
Foreign exchange gains	239	–
Other interest	1	78
Gain on fair value of warrants (note 19)	11	136
Finance income	277	277
Finance expense:		
Loss on sale of bonds (note 18)	–	1,540
Interest on borrowings	5,358	11,930
Foreign exchange loss	–	14,841
Unwinding of discount on provisions (note 20)	1,070	746
Finance expense	6,428	29,057

### 7 Income tax credit

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

	Year ended 31 December 2017 £000	Year ended 31 December 2016 £000
Current tax:		
Charge on loss for the year	–	–
Credit in relation to prior years	(426)	(149)
Total current tax credit	(426)	(149)
Deferred tax:		
Credit relating to the origination or reversal of temporary differences	(21,180)	(6,009)
Credit due to the tax rate changes	–	(6,270)
Charge/(credit) in relation to prior years	2,501	(578)
Total deferred tax credit	(18,679)	(12,857)
Tax credit on loss on ordinary activities	(19,105)	(13,006)

**7 Income tax credit continued****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%.

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 2017 £000	Year ended 31 December 2016 £000
Loss from continuing ordinary activities before tax	(3,249)	(44,773)
Expected tax credit based on loss from continuing ordinary activities multiplied by an average rate of corporation tax and supplementary charge in the UK of 40% (2016: 40%)	(1,300)	(17,909)
Deferred tax charge/(credit) in respect of the prior year	(2,501)	(578)
Current tax credit related to prior year	(426)	(149)
Tax effect of expenses not allowable for tax purposes/(income not taxable)	616	2,926
Tax effect of differences in amounts not allowable for supplementary charge purposes*	1,467	945
Impact of profits or losses taxed or relieved at different rates	(1,699)	3,093
Loss carried back	-	975
Net (decrease)/increase in unrecognised losses carried forward	(20,347)	3,961
Tax rate change	-	(6,270)
Other	20	-
Tax credit on loss on ordinary activities	(19,105)	(13,006)

\* Amounts not allowable for supplementary charge purposes relate to net financing costs disallowed for supplementary charge offset by investment allowance which is deductible against profits subject to supplementary charge

**iii) Deferred tax**

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

	Year ended 31 December 2017 £000	Year ended 31 December 2016 £000
Liability at 1 January	(1,779)	(14,636)
Tax (charge)/credit relating to prior year	(2,501)	578
Tax credit during the year	21,180	6,009
Tax credit arising due to the changes in tax rates	-	6,270
Asset/(liability) at 31 December	16,900	(1,779)

The following is an analysis of the deferred tax asset/(liability) by category of temporary difference:

	31 December 2017 £000	31 December 2016 £000
Accelerated capital allowances	(33,897)	(34,206)
Tax losses carried forward	41,553	22,522
Investment allowance unutilised	485	313
Decommissioning provision	4,628	6,348
Unrealised gains or losses on derivative contracts	2,843	2,126
Share based payments	1,288	1,118
Deferred tax asset/(liability)	16,900	(1,779)

# CONSOLIDATED FINANCIAL STATEMENTS – NOTES FOR THE YEAR ENDED 31 DECEMBER 2017 CONTINUED

## 7 Income tax credit continued

### 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 £107.5 million (2016: £67.4 million) of ring-fence corporation tax losses.

The Group has further tax losses and other similar attributes carried forward of approximately £195 million (2016: £210 million) for which no deferred tax asset is recognised due to insufficient certainty regarding the availability of appropriate future taxable profits. 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 profit for the year after taxation attributable to ordinary equity holders of the parent of £15.5 million (2016: a loss of £32.9 million) and the weighted average number of ordinary shares outstanding during the year of 121.4 million (2016: 299.5 million).

Diluted EPS amounts are based on the profit after taxation attributable to the ordinary equity holders of the parent and the weighted average number of shares outstanding during the year 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.

For the year ended 31 December 2016, there were 1.6 million (restated based on the subdivision) potentially dilutive employee share options, LTIPs and warrants, 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.

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

	Year ended 31 December 2017	Year ended 31 December 2016
Basic EPS – ordinary shares of 0.002 pence each	<b>12.76p</b>	(219.74p)
Diluted EPS – ordinary shares of 0.002 pence each	<b>12.46p</b>	(219.74p)
Profit/(loss) for the year attributable to equity holders of the parent – £000	<b>15,481</b>	(32,911)
Weighted average number of ordinary shares in the year – basic EPS	<b>121,357,572</b>	14,977,131
Weighted average number of ordinary shares in the year – diluted EPS	<b>124,298,195</b>	14,977,131

## 9 Goodwill

	31 December 2017 £000	31 December 2016 £000
At 1 January and 31 December	<b>4,801</b>	4,801

The carrying value of goodwill relates to unconventional assets acquired as part of the Dart acquisition in 2014.

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 2017 and assessed it for impairment by estimating the fair value of risked contingent resources using an estimated market valuation of resources. The fair value is a level 3 fair value measurement, as defined in note 24. No impairment was required for the year (2016: £nil).

## 10 Intangible exploration and evaluation assets

	31 December 2017 £000	31 December 2016 £000
At 1 January	112,448	113,394
Additions	2,752	3,616
Changes in decommissioning	–	(77)
Amounts written off*	(70)	(4,485)
<b>At 31 December</b>	<b>115,130</b>	<b>112,448</b>

\* Write off of unconventional exploration and evaluation assets due to relinquishment of licences considered to be uncommercial.

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 2017 and at 31 December 2016. No indicators of impairment were identified at either year end.

## 11 Property, plant and equipment

	31 December 2017			31 December 2016		
	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	168,329	3,767	172,096	147,434	3,731	151,165
Additions	3,380	58	3,438	5,622	342	5,964
Disposals	(14)	(23)	(37)	(77)	(306)	(383)
Changes in decommissioning**	–	–	–	15,350	–	15,350
Transfers	193	(193)	–	–	–	–
Write off	–	(6)	(6)	–	–	–
<b>At 31 December</b>	<b>171,888</b>	<b>3,603</b>	<b>175,491</b>	<b>168,329</b>	<b>3,767</b>	<b>172,096</b>
<b>Depreciation and Impairment</b>						
At 1 January/April	72,894	1,494	74,388	66,815	1,439	68,254
Charge for the year	7,669	299	7,968	6,156	338	6,494*
Disposals	–	(23)	(23)	(77)	(284)	(361)
Transfers	193	(193)	–	–	–	–
<b>At 31 December</b>	<b>80,756</b>	<b>1,577</b>	<b>82,333</b>	<b>72,894</b>	<b>1,493</b>	<b>74,387</b>
<b>NBV at 31 December</b>	<b>91,132</b>	<b>2,026</b>	<b>93,158</b>	<b>95,435</b>	<b>2,274</b>	<b>97,709</b>

\* Charge for the year includes £125 thousand charge categorised as administration expenses in the profit and loss (2016: £151 thousand) and £11 thousand (2016: £20 thousand) relating to capitalised equipment used for exploration and evaluation.

\*\* 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 and foreign exchange rates, the Group's oil and gas properties were reviewed for impairment as at 31 December 2017. 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 \$67/bbl for 2018, \$64/bbl for 2019, \$61/bbl for 2020, \$60/bbl for 2021 and \$75/bbl thereafter, and a USD/GBP foreign exchange rate of \$1.43/£1.00. Cash flows were discounted using a pre-tax discount rate of 11%. No impairment was required in the year (2016: £nil).

### Sensitivity of changes in assumptions

As discussed above, the principal assumptions are recoverable future production and resources, estimated Brent prices and the USD/GBP foreign exchange rate. Neither a 10% reduction in production, a 10% reduction in Brent prices nor a 10% decline in the value of sterling against the US dollar would result in an impairment in the South or Scotland CGUs. For the North CGU, a 10% reduction in either production or price would result in an impairment of £11.7 million and a 10% reduction in the USD/GBP exchange rate would result in an impairment of £4.0 million.

# CONSOLIDATED FINANCIAL STATEMENTS – NOTES

## FOR THE YEAR ENDED 31 DECEMBER 2017 CONTINUED

### 12 Interest in joint arrangements

As at 31 December 2017, the Group has a combined carried gross work programme of up to c. \$240 million from its farm-in partners – INEOS Upstream Limited (“INEOS”).

The Group’s material joint operations as at 31 December 2017 are set out below:

Licences	Partner	Gas interest	Operator
<b>East Midlands</b>			
PEDL169	Egdon	80%	IGas
EXL288	INEOS	75%	IGas
PEDL146	INEOS	75%	IGas
PEDL210	INEOS	75%	IGas
PEDL012	INEOS	55%	IGas
PEDL200	INEOS	55%	IGas
PEDL278	Egdon	50%	IGas
PEDL273	INEOS, Total, Egdon	35%	IGas
PEDL305	INEOS, Total, Egdon	35%	IGas
PEDL316	INEOS, Total, Egdon	35%	IGas
PEDL139	INEOS, Edgon, eCorp	32%	IGas
PEDL140	INEOS, Edgon, eCorp	32%	IGas
<b>North West</b>			
PEDL190	INEOS	50%	IGas
PEDL145	INEOS	40%	INEOS
PEDL147	INEOS	25%	IGas
PEDL184	INEOS	50%	IGas
PEDL188	INEOS	75%	IGas
PEDL189	INEOS	25%	IGas
PEDL190	INEOS	50%	IGas
PEDL193	INEOS	40%	INEOS
PEDL293	INEOS	30%	INEOS
PEDL295	INEOS	30%	INEOS
EXL 273	INEOS	15%	INEOS
<b>Weald</b>			
PL211	UKOG	90%	IGas
PEDL070	UKOG, Egdon, Aurora, Brigantes, Corfe	50%	IGas

### 13 Inventories

	31 December 2017 £000	31 December 2016 £000
Oil stock	596	491
Drilling and maintenance materials	726	779
	<b>1,322</b>	<b>1,270</b>

### 14 Trade and other receivables

	31 December 2017 £000	31 December 2016 £000
VAT recoverable	245	725
Trade debtors	3,464	3,573
Other debtors	1,692	522
Prepayments	2,058	2,195
	<b>7,459</b>	<b>7,015</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 2017 £000	31 December 2016 £000
Not yet due	4,594	3,879
<b>Amounts overdue but not impaired:</b>		
Not more than three months	5	36
More than three months but not more than six months	-	12-
	<b>4,599</b>	<b>3,927</b>

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

	31 December 2017 £000	31 December 2016 £000
Cash at bank and in hand	15,727	24,946

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. Cash and cash equivalents included £9.1 million at 31 December 2016 which was held in the Debt Service Retention Account ("DSRA"). This was designated, at the Company's discretion, for the buy-back or repayment of bonds. In April 2017, the Company restructured its debt which resulted in the removal of the requirement for a DSRA. See note 18 for further details.

### Restricted cash

	31 December 2017 £000	31 December 2016 £000
Current	126	-
Non-current	303	-

The current restricted cash balance relates to margin payments in respect of oil hedges contracts. The non-current restricted cash represents restoration deposits paid to Nottinghamshire County Council which serve as collateral for the restoration of the sites at the end of their life.

### Net debt reconciliation

	31 December 2017 £000
Cash and cash equivalents	15,727
Borrowings	(21,240)
Net debt	(5,513)
Borrowings – capitalised fees	(686)
Net debt excluding capitalised fees	(6,199)

	Cash and cash equivalents	Borrowings – repayable after one year	Borrowings – repayable Total
At 1 January 2017	24,946	(124,579)	(99,633)
Capital restructuring	3,140	90,025	93,165
Repayment and repurchase of borrowings	(5,423)	5,423	-
Interest paid	(5,917)	5,917	-
Foreign exchange adjustments	(1,541)	2,369	828
Other cash flows	522	-	522
Other non-cash movements	-	(395)	(395)
At 31 December 2017	15,727	(21,240)	(5,513)

# CONSOLIDATED FINANCIAL STATEMENTS – NOTES

## FOR THE YEAR ENDED 31 DECEMBER 2017 CONTINUED

### 16 Discontinued operations

Discontinued operations is made up of Australian and Singaporean registered operations acquired as part of the Dart acquisition. The Group's intention was to divest all business and activities in those countries and it disposed of most of these assets in late 2015. During the year ended 31 December 2016, the Group sold its remaining Indonesian asset, a 49.9% holding in Sangatta 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 Group still has presence in a number of countries and continues its plans to exit all legal jurisdictions in the near future.

The loss for the year before tax in respect of discontinued operations was £0.4 million (2016: £1.14 million).

### 17 Trade and other payables

	31 December 2017 £000	31 December 2016 £000
<b>Current</b>		
Trade creditors	1,366	2,773
Employment taxes	285	425
Other creditors and accruals	4,907	4,972
	<b>6,558</b>	<b>8,170</b>
<b>Non-current</b>		
Other creditors	303	–
	<b>303</b>	<b>–</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 (2016: less than three months).

### 18 Borrowings

	31 December 2017			31 December 2016		
	Current £000	Non-current £000	Total £000	Current £000	Non-current £000	Total £000
Bonds – secured	1,687	19,553	21,240	6,084	96,700	102,784
Bonds – unsecured	–	–	–	–	21,795	21,795
<b>Total</b>	<b>1,687</b>	<b>19,553</b>	<b>21,240</b>	<b>6,084</b>	<b>118,495</b>	<b>124,579</b>

In 2013, the Company and Norsk Tillitsmann (“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. Both secured and unsecured bonds carried a coupon of 10% per annum (where interest was payable semi-annually in arrears). The secured bonds were amortised semi-annually at 2.5% of the initial loan amount. Final maturity on the secured notes was on 22 March 2018 and on the unsecured notes was 11 December 2018.

In April 2017, the Company restructured its debt resulting in the equitisation of the unsecured bonds and a repayment/equitisation of a portion of the secured bonds. The restructuring reduced the total aggregate face value of the secured bonds to \$30.4 million. The interest rate was reduced to 8%, the repayment term was extended to 30 June 2021, and the amortisation rate was increased to 5% of the initial loan amount from 23 March 2018. The restructuring also resulted in changes to the covenants and the removal of the need for a DSRA. The secured bonds now have two covenants: a liquidity requirement of \$7.5 million and a leverage ratio, tested every six months, that requires net debt versus adjusted EBITDA to be less than 3.5 times.

Further details of the restructuring transaction are provided in note 28.

## 19 Other liabilities

Other liabilities related to warrants issued pursuant to a warrant instrument dated 14 December 2011. No warrants were exercised during the current or prior year. The warrants expired on 14 December 2017.

	No.	Weighted average exercise price (pence)	31 December 2017 £000	31 December 2016 £000
At 1 January	7,500,000	55.8	11	147
Subdivision and consolidation	375,000	-	-	-
Expiry of warrants	(375,000)	-	(11)	-
Revaluation gain	-	-	-	(136)
<b>At 31 December</b>	-	-	-	11

## 20 Other provisions

	31 December 2017			31 December 2016		
	Decommissioning £000	Other £000	Total £000	Decommissioning £000	Other £000	Total £000
At 1 January	40,885	39	40,924	25,284	39	25,323
Utilisation of provision	-	(39)	(39)	(418)	-	(418)
Unwinding of discount (note 6)	1,070	-	1,070	746	-	746
Reassessment of decommissioning provision/liabilities	162	-	162	15,273	-	15,273
<b>At 31 December</b>	<b>42,117</b>	<b>-</b>	<b>42,117</b>	<b>40,885</b>	<b>39</b>	<b>40,924</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 1 to 31 years from the year end (2016: 2 to 29 years). These provisions are based on the Group's internal estimate as at 31 December 2017. 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 0.98% to 3.05% is used in the calculation of the provision as at 31 December 2017 (2016: Risk free rate range of 0.58% to 3.80%).

## 21 Contingent deferred consideration

	31 December 2017 £000	31 December 2016 £000
At 1 January	-	420
Fair value adjustment	-	(420)
<b>At 31 December</b>	<b>-</b>	<b>-</b>

The deferred consideration related 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 2016, the Group assessed the likelihood of reaching the milestones as remote and released the remaining provision of £0.4 million. At 31 December 2017, the Group assessed that no provision was required.

# CONSOLIDATED FINANCIAL STATEMENTS – NOTES

## FOR THE YEAR ENDED 31 DECEMBER 2017 CONTINUED

### 22 Pension scheme

The Group operates a defined contribution pension scheme. Contributions payable by the Group for the year ended 31 December 2017 were £0.77 million (2016: £0.80 million).

Contributions amounting to £0.06 million were accrued at 31 December 2017 (2016: £0.06 million) and are included in trade and other payables.

### 23 Commitments

The Group's capital commitments comprised:

#### Capital commitments:

	31 December 2017 £000	31 December 2016 £000
Conventional capex	878	353
Unconventional capex	5,604	2,650
Total capital commitments	6,482	3,003

Capital commitments relate to spend committed but not spent on conventional and unconventional licences.

#### Operating lease commitments:

	31 December 2017 £000	31 December 2016 £000
Minimum lease payments under operating leases recognised in operating loss for the year	2,323	2,271
The Group had future minimum lease payments under non-cancellable operating leases as follows:		
– within 1 year	1,714	1,828
– after 1 year but not more than 5 years	2,731	2,598
– after 5 years	945	1,254
Total	5,390	5,680

### 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 2017 £000	31 December 2016 £000	31 December 2017 £000	31 December 2016 £000
Amortised cost				
Borrowings	21,240	124,579	21,452	81,459

The fair value of borrowings (hierarchy level 1) 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.

## 24 Financial instruments and risk management continued

### Financial assets and liabilities measured at fair value

	31 December 2017 £000	31 December 2016 £000
<b>Financial liabilities: Level 2</b>		
Derivative financial instruments	2,749	876
Warrants	–	11
	<b>2,749</b>	<b>887</b>

#### 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.

#### Derivative financial instruments

In the current year 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 2017 were as follows:

	Term	Contract amount	Contract price/rate	Contract price/rate	Contract price/rate	Fair value at 31 December 2017 £000
			Buy Put	Sell Call	Buy Call	
US dollar Asian 3-way collar	Oct 2018-Dec 2018	150k bbls oil	\$55.00/bbl	\$65.00/bbl	\$80.00/bbl	137
US dollar Asian 3-way collar	Apr 2018-Sep 2018	300k bbls oil	\$46.00/bbl	\$60.00/bbl	\$75.00/bbl	1,332
US dollar Asian 3-way collar	Jan 2018-Mar 2018	150k bbls oil	\$41.00/bbl	\$54.00/bbl	\$69.00/bbl	1,280

The above derivatives mature over the period from 1 January 2018 until 31 December 2018. During the year to 31 December 2017, oil hedges for 165 thousand barrels matured in January and a loss of £0.2 million was realised.

No gains were realised on oil hedges during the year to 31 December 2017 as the underlying price traded within the collar.

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

	Term	Contract amount	Contract price/rate	Contract price/rate	Contract price/rate	Fair value at 31 December 2016 £000
			Sell Swap		Buy Call	
US dollar Asian 3-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 derivatives matured 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 (note 3). In addition, a number of hedges were terminated generating a gain of £4.5 million (note 3).

#### 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.

# CONSOLIDATED FINANCIAL STATEMENTS – NOTES

## FOR THE YEAR ENDED 31 DECEMBER 2017 CONTINUED

### 24 Financial instruments and risk management continued

#### Financial risk management

The Group's principal financial liabilities comprise borrowings 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, cash and cash equivalents and restricted cash 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 risk;
- Credit risk; and
- Liquidity risk.

The Group is not exposed to interest rate risk 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 and it 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 exchange rates.

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 preparing the sensitivity analyses:

- The sensitivity of the relevant profit before tax item is the effect of the assumed changes in market risks. This is based on the financial assets and financial liabilities held at 31 December 2017 and 31 December 2016; 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 oil and gas 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, with the assumption that crude oil price moves 15% over all future periods, 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 and equity	
	31 December 2017 £000	31 December 2016 £000
15% increase in the price of oil	4,396	3,001
15% decrease in the price of oil	(4,396)	(3,001)

## 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 approximately 5% of costs are denominated in currencies other than the functional currency of the Group, primarily US dollars. The Group borrowings are also denominated in US dollars. The Group's exposure to other currencies is not considered to be 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 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 ended and to equity as at	
	31 December 2017 £000	31 December 2016 £000
10% strengthening of the pound against the US dollar	720	10,033
10% weakening of the pound against the US dollar	(720)	(10,033)

### 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 2017, two customers (2016: two) accounted for approximately 97% (2016: 97%) of trade receivables of £3.7 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 2017, the maximum exposure was £15.7 million (2016: £24.9 million).

# CONSOLIDATED FINANCIAL STATEMENTS – NOTES

## FOR THE YEAR ENDED 31 DECEMBER 2017 CONTINUED

### 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 years £000	2-3 years £000	>3 years £000	Total £000
<b>At 31 December 2017</b>						
Borrowings	–	3,418	3,823	3,643	16,663	27,547
Trade and other payables	–	1,366	–	–	–	1,366
	–	4,784	3,823	3,643	16,663	28,913
<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

Management considers that the Group has adequate current assets and forecast cash from operations to manage liquidity risks arising from current 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 requirements are met through a combination of debt and equity and adjustments are made in light of changes in economic conditions. The Group's strategy is to maintain ratios in line with covenants associated with its secured 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 4 April 2017 (see note 28). 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 \$240 million, means that the Company is well positioned to pursue its strategy.



## 25 Share capital

On 3 April 2017, 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. At the Annual General Meeting of the Company on 14 June 2017, the shareholders approved a consolidation and subdivision of the Company's share capital in order to reduce the number of shares in issue to that more appropriate for the size of the Company. Following the consolidation, every 200 ordinary shares of 0.0001 pence each were consolidated into one new ordinary share of 0.02 pence each and immediately subdivided into 10 ordinary shares of 0.002 pence. The consolidation and subdivision reduced the number of shares in issue from 2.4 billion to 121 million.

	Ordinary shares		Deferred shares*		Share capital	Share premium
	No.	Nominal value £000	No.	Nominal value £000	Nominal value £000	Value £000
Issued and fully paid						
At 1 January 2017, ordinary shares of 10p each	302,820,578	30,282	-	-	30,282	32
January 2017 SIP share issue	484,956	49	-	-	49	2
Balance prior to the restructuring	303,305,534	30,331	-	-	30,331	34
Subdivision of 10p ordinary shares into 0.0001p ordinary shares and 9.9999p deferred shares	-	(30,331)	303,305,534	30,331	-	-
Issued through Kerogen Subscription Agreement	679,282,165	1	-	-	1	28,766
Issued through the Placing and Open and Ancillary Offers	400,069,644	-	-	-	-	18,003
Equitisation of secured and unsecured bonds	1,043,350,391	1	-	-	1	46,949
Transaction costs	-	-	-	-	-	(554)
Reserves transfer on equitisation of unsecured bonds	-	-	-	-	-	9,008
May 2017 SIP share issue	956,464	-	-	-	-	44
Total ordinary shares before subdivision and consolidation	2,426,964,198					
Subdivision and consolidation	(2,305,615,988)					
<b>After subdivision and consolidation</b>	<b>121,348,210</b>	<b>2 303,305,534</b>	<b>30,331</b>	<b>30,333</b>	<b>102,250</b>	
July 2017 SIP share issue	59,352	-	-	-	-	42
October 2017 SIP share issue	73,557	-	-	-	-	50
December 2017 EBT issue	400,000	-	-	-	-	-
<b>At 31 December 2017</b>	<b>121,881,119</b>	<b>2 303,305,534</b>	<b>30,331</b>	<b>30,333</b>	<b>102,342</b>	

\* Deferred shares were created on capital restructuring which completed in April 2017 as disclosed in note 28

Accordingly, the Group share capital account comprised:

	£000
<b>Share capital account</b>	
At 1 January 2016	29,882
Shares issued during the year	400
At 31 December 2016	30,282
Shares issued during the year	51
<b>At 31 December 2017</b>	<b>30,333</b>

## 26 Share premium

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 106,740,090 ordinary shares at a nominal value of 0.002p each (on a post subdivision and consolidation basis), (2016: 3,996,914 shares issued on a pre-subdivision and consolidation basis) resulting in an increase in the share premium account of £102.3 million (2016: £0.2 million) – see note 25. Issuing costs of £554 thousand were incurred during the year (2016: £nil).

# CONSOLIDATED FINANCIAL STATEMENTS – NOTES

## FOR THE YEAR ENDED 31 DECEMBER 2017 CONTINUED

### 27 Other reserves

Other reserves are as follows:

	Warrant/Share plan reserves £000	Treasury shares £000	Capital contributions £000	Merger reserve £000	Total £000
Balance at 1 January 2016	3,260	(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	–	–	–
Balance at 31 December 2016	8,138	(1,650)	47	22,222	28,757
Employee share plans – cost under IFRS 2*	1,231	–	–	–	1,231
Employee share plans – shares issued under the SIP	–	102	–	–	100
Forfeiture of LTIPs under the employee share plan	(85)	–	–	–	(85)
Lapse of LTIPs under the employee share plan	(11)	–	–	–	(11)
Transfers	(175)	175	–	–	2
<b>Balance at 31 December 2017</b>	<b>9,098</b>	<b>(1,373)</b>	<b>47</b>	<b>22,222</b>	<b>29,994</b>

\* Employee share plan costs under IFRS 2 include £1.056 thousand of charges that were expensed during the year (2016: £3,499 thousand)

### Employee share plans – Equity settled

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

	FIP Number of units	MRP Number of units	EDRP Number of units	LTIP Number of units
Outstanding at 1 January 2016	–	7,143,610	6,500,000	1,843,300
Granted during the year	7,548,701	2,865,290	–	–
Forfeited during the year	(452,358)	(538,086)	–	(1,416)
Outstanding at 31 December 2016	7,096,343	9,470,814	6,500,000	1,841,884
Exercisable at 31 December 2016	–	9,470,814	6,500,000	–
Exercisable after subdivision and conversion (including roundings)	354,826	473,566	325,000	92,096
Awarded during the year	1,756,923	–	–	–
Exercised during the year	(9,533)	(206,314)	–	–
Lapsed during the year	–	–	–	(1,029)
Forfeited during the year	(15,512)	–	–	(3,975)
<b>Outstanding at 31 December 2017</b>	<b>2,086,704</b>	<b>267,252</b>	<b>325,000</b>	<b>87,092</b>
<b>Exercisable at 31 December 2017</b>	<b>2,086,704</b>	<b>267,252</b>	<b>325,000</b>	<b>87,092</b>

Note – all options are nil 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.

**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.

On 14 June 2017 these awards were subdivided in line with the subdivision and consideration of the Group's share capital (see note 25). In October 2017, the Group awarded 1,756,923 Ordinary shares under a long term incentive plan to the Executive Directors of the Company and other key employees of the Group.

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 £0.68, a risk free interest rate of 0.54% and an implied share price volatility 63.95%. 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 £0.978 million.

The EIPs outstanding at 31 December 2017 had both a weighted average remaining contractual life and maximum term remaining of 9.8 years.

The total charge for the year was £0.48 million. Of this amount, £0.10 million was capitalised and £0.38 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 2016 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 2017 had both a weighted average remaining contractual life and maximum term remaining of 5.9 years (2016: 6.9 years). The fair value of the replacement awards granted under the MRP was the grant date share price.

The total charge for the year was £nil (2016: £1.8 million). Of this amount, £nil (2016: £0.6 million) was capitalised or recharged to Joint Venture partners and £nil (2016: £1.2 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 £0.23. 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 2017 had both a weighted average remaining contractual life and maximum term remaining of 5.5 years (2016: 6.5 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 £nil (2016: £0.8 million). Of this amount, £nil was capitalised (2016: £0.47 million) and £nil was charged to the income statement (2016: £0.33 million).

# CONSOLIDATED FINANCIAL STATEMENTS – NOTES

## FOR THE YEAR ENDED 31 DECEMBER 2017 CONTINUED

### 27 Other reserves continued

#### 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 2017 had both a weighted average remaining contractual life and maximum term remaining of 7.9 years (2016: 8.9 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 £0.12 million (2016: £0.40 million). Of this amount, £0.02 million was capitalised (2016: £0.23 million) and £0.10 million was charged to the income statement (2016: £0.17 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 the 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 £0.59 million (2016: £1.76 million). Of this amount, £0.21 million was capitalised (2016: £1.10 million) and £0.38 million was charged to the income statement (2016: £0.66 million). During the year ended 31 December 2015, the VCP was replaced by the EDRP in its entirety, but the fair value of the original award continues to be recognised over the remainder of the original vesting period as per the provisions of IFRS 2.

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 (pre capital issue)	Granted Jul '14 (capital issue relating to Dart acquisition - Oct '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

**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 £150 (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 £0.2 million (2016: £0.27 million). Of this amount, £0.005 million was capitalised (2016: £0.05 million) and £0.195 million was charged to the income statement (2016: £0.22 million).

**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 2017 400,000 ordinary shares of £0.00002 were issued to the Trust (2016: nil). In addition 225,226 ordinary shares of £0.00002 each (2016: 246,720 ordinary shares of 10p each – pre-consolidation) were released from the Trust on exercise of share options by current and 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 Capital restructure**

During the year ended 31 December 2016, the Company disclosed that it expected to be non-compliant with its leverage covenants under its secured bond agreement 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.

A gain of £4.9 million (net of fees of £2.5 million) arising from the restructure has been recognised for the year.

# CONSOLIDATED FINANCIAL STATEMENTS – NOTES

## FOR THE YEAR ENDED 31 DECEMBER 2017 CONTINUED

### 29 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 2017.

The Directors, Chief Financial Officer and the Chief Operating Officer 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 2017 £000	Year ended 31 December 2016 £000
Short-term employee benefits (including related social security costs)	1,642	1,301
Share plan	546	1,108
Fees	198	166
	<b>2,386</b>	<b>2,575</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.

Prior to the restructuring, C McDowell held \$0.24 million (2016: \$0.25 million) of bonds issued by the Group. Mr McDowell elected to participate fully in the voluntary debt for equity swap on his secured bond holding resulting in an allotment of 4,383,441 shares. Following the consolidation and subdivision of shares, the holding equalled 219,170 shares. In 2016, he received interest of \$0.03 million. Accrued interest at 31 December 2016 was \$6.9 thousand.

### 30 Subsequent events

On 24 January 2018 the Group issued 69,195 Ordinary £0.00002 shares in relation to the Company's SIP scheme. The shares were issued at £0.69 resulting in share premium of £47,570.

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

## Report on the audit of the Company financial statements

### 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 2017 and of its cash flows for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Accounts (the "Annual Report"), which comprise: the Parent Company Balance Sheet as at 31 December 2017; the Parent Company Cash Flow Statement, the Parent Company Statement of Changes in Equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies

### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Independence

We remained independent of the Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

## Our audit approach

### Overview

Overall materiality	<ul style="list-style-type: none"> <li>• Overall materiality: £1,000,000 (2016: £650,000), based on a proportion of net assets.</li> </ul>
How we determined it	<ul style="list-style-type: none"> <li>• We obtained coverage over 99% of Company's total assets and 100% of Company's consolidated total liabilities.</li> </ul>
Rationale for benchmark applied	<ul style="list-style-type: none"> <li>• Carrying value of investments in subsidiaries.</li> <li>• Basis of going concern.</li> <li>• Refinancing.</li> </ul>

### The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we looked at where the Directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain.

As in all of our audits we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the Directors that represented a risk of material misstatement due to fraud.

### Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. This is not a complete list of all risks identified by our audit.



**Key audit matter****How our audit addressed the key audit matter**

Carrying value of investment in subsidiaries

See note 2 Investments in subsidiaries.

The carrying value of the Company's investments in subsidiaries were £392.3 million at 31 December 2017, comprising of £170.9 million of investment in subsidiaries and £221.4 million of loans to group companies. These represents 93% of the Company's total assets. We focused on this area due to the material nature of the balance.

We have obtained management's assessment over whether the carrying value of the investments in subsidiaries is supportable. This included comparing the fair value of each entity with the carrying value of the Parent Company investments. Fair values were derived from a combination of the subsidiary net assets and the fair value of subsidiaries oil and gas properties based on the Group impairment model. Based on the procedures performed we concur with management that, after impairment of £17.9 million, the carrying value is supportable.

Basis of going concern

See page 101 Basis of preparation of financial statements

The strength of the Company's balance sheet was improved significantly by the capital restructuring which was completed in April 2017 and as a result management concluded that the Group is a going concern for at least 12 months from the date of signing the financial statements

We obtained management's cash flow forecast which supports their use of the going concern basis of accounting. We tested the integrity of this model, including mathematical accuracy, and confirmed key assumptions such as forecast sales revenue and operating costs were consistent with impairment models. Any differences were investigated. We also considered historical accuracy of management's forecasting.

Based on the work performed we concurred with management's assumption that Group is a going concern for at least 12 months from the date of signing the financial statements.

Refinancing

See note 12 Called up share capital.

At 31 December 2016, the Company had secured and unsecured bonds, listed on Oslo Bors, of £125 million and announced to the market that the Company expected to be non-compliant with its leverage covenants at 31 December 2016 and that it also expected to breach its liquidity covenant in late March 2017. The Company engaged with their bondholders, a strategic investor and other stakeholders to consider possible restructure options to remedy the expected covenants breach and also achieve a capital structure that will be sustainable in the current oil price environment. In March 2017, the Company announced the final terms of the restructuring and fundraising and this was subsequently approved by the secured and unsecured bondholders and shareholders on 3 April 2017. This resulted in the extinguishment of a significant portion of the debt and transaction cost, a portion of which were capitalised against the new debt and equity.

We have identified two key judgements in assessing the accounting for the restructuring and fundraising

We firstly assessed whether there was an extinguishment or modification of the bonds. Due to the substantially revised bond terms we concur with management's that this was an extinguishment

Secondly we considered the treatment of the transaction costs and concur with management's treatment whereby:

- only directly attributable costs have been deducted from equity;
- directly attributable transaction costs have been allocated between the extinguished and new bonds on a reasonable basis; and other transaction costs have been expensed.

**How we tailored the audit scope**

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the Company, the accounting processes and controls, and the industry in which it operates.

# INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF IGAS ENERGY PLC CONTINUED

## Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Overall materiality	£1,000,000 (2016: £650,000).
How we determined it	A proportion of net assets.
Rationale for benchmark applied	We consider net assets to be one of the principal considerations of the members of the Parent Company. The overall materiality has been limited to 90% of the Group's overall materiality.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £50,000 (2016: £32,500) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

## Conclusions relating to going concern

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

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

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Company's ability to continue as a going concern.

## Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The Directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

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

With respect to the Strategic Report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below

## Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 December 2017 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report.

## Responsibilities for the financial statements and the audit

### Responsibilities of the Directors for the financial statements

As explained more fully in the Directors' Statement of Responsibilities set out on page 93, the Directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The Directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

### Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

### Use of this report

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.

### Other required reporting

#### Companies Act 2006 exception reporting

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
- certain disclosures of Directors' remuneration specified by law are not made; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

### Other voluntary reporting

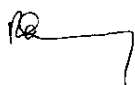
#### Directors' remuneration

The Company voluntarily prepares a Directors' Remuneration Report in accordance with the provisions of the Companies Act 2006. The Directors 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 matter

We have reported separately on the Group financial statements of iGas Energy plc for the year ended 31 December 2017.



#### Richard Spilsbury

(Senior Statutory Auditor)

for and on behalf of PricewaterhouseCoopers LLP

Chartered Accountants and Statutory Auditors

London

20 March 2018

# PARENT COMPANY BALANCE SHEET

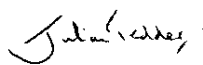
## AS AT 31 DECEMBER 2017

	Notes	31 December 2017 £000	31 December 2016 £000
<b>ASSETS</b>			
<b>Non-current assets</b>			
Investments in subsidiaries	2	392,275	397,774
Property, plant and equipment	3	47	124
		<b>392,322</b>	397,898
<b>Current assets</b>			
Trade and other receivables	4	30,947	39,366
Cash and cash equivalents	5	858	21,205
		<b>31,805</b>	60,571
<b>Total assets</b>		<b>424,127</b>	458,469
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Trade and other payables	6	(146,910)	(174,839)
Borrowings	8	(1,687)	(6,084)
Other liabilities	9	–	(11)
		<b>(148,597)</b>	(180,934)
<b>Non-current liabilities</b>			
Borrowings	8	(19,553)	(118,495)
		<b>(19,553)</b>	(118,495)
<b>Total liabilities</b>		<b>(168,150)</b>	(299,429)
<b>Net assets</b>		<b>255,977</b>	159,040
<b>EQUITY</b>			
<b>Capital and reserves</b>			
Called up share capital	12	30,333	30,282
Share premium account	13	102,342	32
Merger reserve	14	22,222	22,222
Other reserves	15	7,657	6,535
Accumulated surplus		93,423	99,969
<b>Total equity</b>		<b>255,977</b>	159,040

These financial statements were approved and authorised for issue by the Board on 20 March 2018 and are signed on its behalf by:



**Stephen Bowler**  
Chief Executive Officer



**Julian Tedder**  
Chief Financial Officer

The notes on pages 101 to 116 form an integral part of these financial statements.

# PARENT COMPANY STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2017

	Called up share capital (note 12) £000	Share premium account (note 13) £000	Capital redemption reserve £000	Merger reserve (note 14) £000	Other reserves (note 15) £000	Accumulated (deficit)/surplus £000	Total equity £000
Balance at 1 January 2016	29,882	121,623	64,882	22,222	1,322	(36,893)	203,038
Loss and total comprehensive loss for the year	-	-	-	-	-	(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
Balance at 31 December 2016 and 1 January 2017	30,282	32	-	22,222	6,535	99,969	159,040
Profit and total comprehensive income for the year	-	-	-	-	-	2,462	2,462
Employee share plans (note 15)	-	-	-	-	1,218	-	1,218
Forfeiture of LTIPs under the employee share plan (note 15)	-	-	-	-	(85)	-	(85)
Lapse of LTIPs under the employee share plan (note 15)	-	-	-	-	(11)	-	(11)
Issue of shares and conversion of debt (note 12)	51	93,302	-	-	-	-	93,353
Reserves transfer on equitisation of unsecured bond	-	9,008	-	-	-	(9,008)	-
<b>Balance at 31 December 2017</b>	<b>30,333</b>	<b>102,342</b>	<b>-</b>	<b>22,222</b>	<b>7,657</b>	<b>93,423</b>	<b>255,977</b>

The notes on pages 101 to 116 form an integral part of these financial statements.

# PARENT COMPANY CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2017

	Notes	Year ended 31 December 2017 £000	Nine months ended 31 December 2016 £000
<b>Cash flows from operating activities:</b>			
Profit/(loss) for before tax		2,429	(49,796)
Depletion, depreciation and amortisation		77	90
Share based payment charge		159	1,110
Adjustment for loss on disposal of a subsidiary		-	277
Impairment of intercompany receivable		-	9,137
Impairment of investments		17,939	-
Finance income		(27,452)	(10,781)
Finance costs		6,389	29,856
Other non-cash items		(124)	19
Operating cash flow before working capital movements		(583)	(20,088)
Decrease/(increase) in trade and other receivables		8,419	(2,523)
(Decrease)/increase in trade and other payables		(19,071)	30,619
Cash (used in)/from operating activities		(11,235)	8,008
Tax refunded		31	-
<b>Net cash (used in)/from operating activities</b>		<b>(11,204)</b>	<b>8,008</b>
<b>Cash flows from investing activities:</b>			
Purchase of property, plant and equipment		-	(20)
Interest received		10	130
<b>Net cash from investing activities</b>		<b>10</b>	<b>110</b>
<b>Cash flows from financing activities:</b>			
Cash proceeds from issue of ordinary share capital	25	77	136
Cash proceeds from the issue of shares in capital restructuring	16	46,789	-
Cash paid in settlement of secured bonds	16	(39,337)	-
Fees related to capital restructure	16	(4,311)	-
Repayment and repurchase of borrowings	16	(5,423)	(4,916)
Sale of bonds		-	4,914
Interest paid		(5,917)	(11,570)
<b>Net cash used in financing activities</b>		<b>(8,122)</b>	<b>(11,436)</b>
Net decrease in cash and cash equivalents in the year		(19,316)	(3,318)
Net foreign exchange difference		(1,031)	3,418
Cash and cash equivalents at the beginning of the year		21,205	21,105
<b>Cash and cash equivalents at the end of the year</b>	5	<b>858</b>	<b>21,205</b>

The notes on pages 101 to 116 form an integral part of these financial statements.

# PARENT COMPANY FINANCIAL STATEMENTS – NOTES FOR THE YEAR ENDED 31 DECEMBER 2017

## 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 2017, and with the Companies Act 2006.

The financial statements were approved by the Board and authorised for issue on 20 March 2018. 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 profit for the year of £6.7 million (2016: a loss of £49.8 million).

### New and amended standards and interpretations

During the year, the Company adopted the following new and amended IFRSs which were applicable to the Group's activities as of 1 January 2017 but not yet endorsed by the EU.

Amendments to IAS 7 ‘Cash flow statements’, regarding the Disclosure Initiative (Not yet EU endorsed as of 1 May 2017).

Amendments to IAS 12 ‘Income taxes’, regarding recognition of deferred tax assets for unrealised losses (Not yet EU endorsed as of 1 May 2017).

Annual improvements 2014-2016 IFRS 12 ‘Disclosure of interest in other entities’ (Not yet EU endorsed as of 1 May 2017).

Certain new standards, interpretations and amendments to existing standards have been published and are mandatory only for the Company'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 2	Classification and measurement of share-based payment transactions – Amendment to IFRS 2	1 January 2018*
IFRS 15	Revenue from Contracts with Customers	1 January 2018*
IFRS 9	Financial Instruments	1 January 2018*
IFRS 16	Leases	1 January 2019*
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 indefinitely*

\* The effective dates stated above are those given in the original IASB/IFRIC standards and interpretations. As the Company 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 their 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 Company's discretion to early adopt standards.

The Company has assessed the impact of IFRS 15 and IFRS 9 amendments, and considers these not to be significant. The Company is still assessing the impact of IFRS 16 amendments 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 16 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. The Company is in a net current liability position, driven by intercompany balances with subsidiary companies. The financial stability of the Company can be supported by the subsidiaries not enforcing payment for these loans. Thus they continue to adopt the going concern basis in the preparation of the financial statements.

# PARENT COMPANY FINANCIAL STATEMENTS – NOTES

## FOR THE YEAR ENDED 31 DECEMBER 2017 CONTINUED

### 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.

#### 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



**1 Accounting policies continued****(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.

# PARENT COMPANY FINANCIAL STATEMENTS – NOTES FOR THE YEAR ENDED 31 DECEMBER 2017 CONTINUED

## 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 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 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).

**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 Investments in subsidiaries**

Investments in subsidiaries comprises.

	31 December 2017			31 December 2016		
	Investment in Group Companies £000	Loans to Group companies £000	Total £000	Investment in Group Companies £000	Loans to Group companies £000	Total £000
Parent Company						
At beginning of year	187,772	210,002	397,774	183,517	199,488	383,005
Additions	1,061	11,379	12,440	4,255	10,514	14,769
Impairments	(17,939)	–	(17,939)	–	–	–
At end of year	170,894	221,381	392,275	187,772	210,002	397,774

Loans to Group companies have repayment terms of between five and seven years. Of the £221.4 million loans to Group companies, £79.9 million bear interest at 1.2% above LIBOR at the initiation of the loan, while the remainder bear interest at a fixed rate of 12%.

At 31 December 2017, the Company had investments in the following 100% owned subsidiaries:

Name of company	Principal activity and country of incorporation	Registered office address
<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 Enterprise Limited	Oil and gas exploration, development and production, England	7 Down Street, London, W1J 7AJ
(formerly IGas Energy (Cairness) Limited		
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 (Singleton) Limited	Oil and gas production and marketing, England	7 Down Street, London, W1J 7AJ
Dart Energy (Europe) Limited	Investment holding, Scotland	C/O Womble Bond Dickinson (UK) Llp, Level 6, 124 -125 Princess Street, Edinburgh, EH2 4AD
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
IGas Energy Development Limited	Oil and gas exploration, development and production, England	7 Down Street, London, W1J 7AJ
(formerly GP Energy Ltd)		
IGas Energy Production Limited	Oil and gas exploration, development and production, Scotland	C/O Womble Bond Dickinson (UK) Llp, Level 6, 124 -125 Princess Street, Edinburgh, EH2 4AD
(formerly Dart Energy (Forth Valley) Limited		
Dart Energy (Carbon Storage) Limited	Dormant, Scotland	C/O Womble Bond Dickinson (UK) Llp, Level 6, 124 -125 Princess Street, Edinburgh, EH2 4AD
Dart Energy (Lothian) Limited	Dormant, Scotland	C/O Womble Bond Dickinson (UK) Llp, Level 6, 124 -125 Princess Street, Edinburgh, EH2 4AD
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 (Brunxner) 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

# PARENT COMPANY FINANCIAL STATEMENTS – NOTES FOR THE YEAR ENDED 31 DECEMBER 2017 CONTINUED

## 2 Investments in subsidiaries continued

Name of company	Principal activity and country of incorporation	Registered office address
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	804-805, 8 <sup>th</sup> Floor, Tower B, Global Business Park, M.G Road, Gurugram, Harvana
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 (CMM) 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

The Company's investments in subsidiaries were reviewed for indicators of impairment as at 31 December 2017.

## 3 Property, plant and equipment

	31 December 2017				31 December 2016			
	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	375	139	20	534	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>375</b>	<b>139</b>	<b>20</b>	<b>534</b>
<b>Accumulated depreciation</b>								
At 1 January	256	134	20	410	182	118	20	320
Charge for the year	75	2	–	77	74	16	–	90
<b>At 31 December</b>	<b>331</b>	<b>136</b>	<b>20</b>	<b>487</b>	<b>256</b>	<b>134</b>	<b>20</b>	<b>410</b>
<b>NBV at 31 December</b>	<b>44</b>	<b>3</b>	<b>–</b>	<b>47</b>	<b>119</b>	<b>5</b>	<b>–</b>	<b>124</b>

## 4 Trade and other receivables

	31 December 2017 £000	31 December 2016 £000
Amounts falling due within one year:		
VAT recoverable	39	192
Other debtors	36	39
Amounts due from subsidiary undertakings	30,718	38,987
Prepayments	154	148
	<b>30,947</b>	<b>39,366</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.

## 5 Cash and cash equivalents

	31 December 2017 £000	31 December 2016 £000
Cash at bank and in hand	858	21,205

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.

Cash and cash equivalents included £9.2 million at 31 December 2016 which was held in the DSRA. This was designated, at the Company's discretion, for the buy-back or repayment of bonds

## Net debt reconciliation

	31 December 2017 £000
Cash and cash equivalents	858
Borrowings	(21,240)
Net debt	(20,382)
Borrowings – capitalised fees	(686)
Net debt excluding capitalised fees	(21,068)

	Cash and cash equivalents £000	Borrowings £000	Total £000
At 1 January 2017	21,205	(124,579)	(103,374)
Capital restructuring	3,140	90,025	93,165
Repayments and repurchase of borrowings	(5,423)	5,423	–
Interest paid	(5,917)	5,917	–
Foreign exchange adjustments	(1,031)	2,369	1,338
Other cash flows	(11,116)	–	(11,116)
Other non-cash movements	–	(395)	(395)
<b>At 31 December 2017</b>	<b>858</b>	<b>(21,240)</b>	<b>(20,382)</b>

## 6 Trade and other payables

	31 December 2017 £000	31 December 2016 £000
Trade creditors	274	661
Taxation and social security	51	60
Amounts due to subsidiary undertakings	145,751	173,129
Accruals and other creditors	834	989
	<b>146,910</b>	<b>174,839</b>

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 (2016: no longer than three months).

## 7 Taxation

Tax losses, none of which are considered sufficiently certain of utilisation to recognise deferred tax assets, amount to

	Year ended 31 December 2017 £000	Year ended 31 December 2016 £000
Excess management expenses	17,615	16,533
Non-trade loan relationship debits	47,968	37,551

# PARENT COMPANY FINANCIAL STATEMENTS – NOTES FOR THE YEAR ENDED 31 DECEMBER 2017 CONTINUED

The tax law has changed with effect from 1 April 2017 so that there is more flexibility regarding the usage of the losses brought forward including excess management expenses and non-trade loan relationship debits.

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 2017			31 December 2016		
	Within 1 year £000	Greater than 1 year £000	Total £000	Within 1 year £000	Greater than 1 year £000	Total £000
Bonds – secured	1,687	19,553	21,240	6,084	96,700	102,784
Bonds – unsecured	–	–	–	–	21,795	21,795
Total	1,687	19,553	21,240	6,084	118,495	124,579

In 2013, the Company and Norsk Tillitsmann (“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. Both secured and unsecured bonds carried a coupon of 10% per annum (where interest was payable semi-annually in arrears). The secured bonds were amortised semi-annually at 2.5% of the initial loan amount. Final maturity on the secured notes was on 22 March 2018 and on the unsecured notes was 11 December 2018.

In April 2017, the Company restructured its debt resulting in the equitisation of the unsecured bonds and a repayment/equitisation of a portion of the secured bonds. The restructuring reduced the total aggregate face value of the secured bonds to \$30.0 million. The interest rate was reduced to 8%, the repayment term was extended to 30 June 2021, and the amortisation rate was increased to 5% of the initial loan amount from 23 March 2018. The restructuring also resulted in changes to the covenants and the removal of the need for a DSRA. The secured bonds now have two covenants: a liquidity requirement of \$7.5 million and a leverage ratio, tested every six months, that requires net debt versus adjusted EBITDA to be less than 3.5 times.

## 9 Other liabilities

Other liabilities related to warrants issued pursuant to a warrant instrument dated 14 December 2011. No warrants were exercised during the current or prior year. The warrants expired on 14 December 2017.

	No.	Weighted average exercise price (pence)	2017 £000	2016 £000
At 1 January	7,500,000	55.8	11	147
Subdivision and conversion	375,000	–	–	–
Expiry of warrants	(375,000)	–	(11)	–
Revaluation gain	–	–	–	(136)
At 31 December	–	–	–	11

## 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:

	31 December 2017 £000	31 December 2016 £000
- expiring within 1 year	1,273	614
- expiring within 2 to 5 years	1,468	1,320
- expiring after 5 years	867	389
<b>Total</b>	<b>3,608</b>	<b>2,323</b>

## 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 2017 £000	31 December 2016 £000	31 December 2017 £000	31 December 2016 £000
<b>Financial liabilities</b>				
Amortised cost				
Borrowings	21,240	124,579	21,452	81,459

The fair value of borrowings (hierarchy level 1) have been calculated by reference to quoted market prices for these specific liabilities.

### 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:

	31 December 2017 £000	31 December 2016 £000
<b>Financial liabilities: Level 2</b>		
Warrants	—	11

# PARENT COMPANY FINANCIAL STATEMENTS – NOTES FOR THE YEAR ENDED 31 DECEMBER 2017 CONTINUED

## 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. The analysis is based on the assumption that LIBOR moves 50 basis points, with all other variables held constant.

	Increase/(decrease) in profit before tax for the year ended and to equity as at	
	31 December 2017 £000	31 December 2016 £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 pounds 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 ended and to equity as at	
	31 December 2017 £000	31 December 2016 £000
10% strengthening of the pound against the US dollar	2,170	10,033
10% weakening of the pound against the US dollar	(2,170)	(10,033)



## 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. £0.1 million (2016: £20.1 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 2017</b>						
Borrowings	–	3,418	3,823	3,643	16,663	27,547
Trade and other payables	–	274	–	–	–	274
	–	3,692	3,823	3,643	16,663	27,821
<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

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.

The Company completed a restructuring and fundraising package on 4 April 2017 (see note 12). 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 \$240 million, means that the Company is well positioned to pursue its strategy.

# PARENT COMPANY FINANCIAL STATEMENTS – NOTES FOR THE YEAR ENDED 31 DECEMBER 2017 CONTINUED

## 12 Called up share capital

On 3 April 2017, 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. At the Annual General Meeting of the Company on 14 June 2017, the shareholders approved a consolidation and subdivision of the Company's share capital in order to reduce the number of shares in issue to that more appropriate for the size of the Company. Following the consolidation, every 200 ordinary shares of 0.0001 pence each were consolidated into one new ordinary share of 0.02 pence each and immediately subdivided into 10 ordinary shares of 0.002 pence. The consolidation and subdivision reduced the number of shares in issue from 2.4 billion to 121 million.

	Ordinary shares		Deferred shares*		Share capital	Share premium
	No	Nominal value £000	No	Nominal value £000	Nominal value £000	Value £000
<b>Issued and fully paid</b>						
At 1 January 2017, ordinary shares of 10p each	302,820,578	30,282	-	-	30,282	32
January 2017 SIP share issue	484,956	49	-	-	49	2
Balance prior to the restructuring	303,305,534	30,331	-	-	30,331	34
Subdivision of 10p ordinary shares into 0.0001p ordinary shares and 9.9999p deferred shares	-	(30,331)	303,305,534	30,331	-	-
Issued through Kerogen Subscription Agreement	679,282,165	1	-	-	1	28,766
Issued through the Placing and Open and Ancillary Offers	400,069,644	-	-	-	-	18,003
Equitisation of secured and unsecured bonds	1,043,350,391	1	-	-	1	46,949
Transaction costs	-	-	-	-	-	(554)
Reserves transfer on equitisation of unsecured bonds	-	-	-	-	-	9,008
May 2017 SIP share issue	956,464	-	-	-	-	44
<b>Total ordinary shares before subdivision and consolidation</b>	<b>2,426,964,198</b>					
Subdivision and consolidation	(2,305,615,988)					
<b>After subdivision and consolidation</b>	<b>121,348,210</b>	<b>2 303,305,534</b>	<b>30,331</b>		<b>30,333</b>	<b>102,250</b>
July 2017 SIP share issue	59,352	-	-	-	-	42
October 2017 SIP share issue	73,557	-	-	-	-	50
December 2017 EBT issue	400,000	-	-	-	-	-
<b>At 31 December 2017</b>	<b>121,881,119</b>	<b>2 303,305,534</b>	<b>30,331</b>		<b>30,333</b>	<b>102,342</b>

\* Deferred shares were created on capital restructuring which completed in April 2017 as disclosed in note 16

Accordingly, the Group share capital account comprised:

	£000
<b>Share capital account</b>	
At 1 January 2016	29,882
Shares issued during the year	400
At 31 December 2016	30,282
Shares issued during the year	51
<b>At 31 December 2017</b>	<b>30,333</b>

## 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 106,740,090 ordinary shares at a nominal value of 0.002p each (on a post subdivision and consolidation basis), (2016: 3,996,914 shares issued on a pre-subdivision and consolidation basis) resulting in an increase in the share premium reserve of £102.3 million (2016: £0.18 million) – see note 12. The issuing costs incurred during the year were £554 thousand (31 December 2016: £nil).

## 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.

## 15 Other reserves

Other reserves are as follows:

	Warrant/Share plan reserves £000	Treasury shares £000	Capital contributions £000	Merger reserve £000	Total £000
At 1 January 2016	3,260	(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	–	–	–
At 31 December 2016	8,138	(1,650)	47	22,222	28,757
Employee share plans – cost under IFRS 2*	1,116	–	–	–	1,116
Employee share plans – shares issued under the SIP	–	102	–	–	102
Forfeiture of LTIPs under the employee share plan	(85)	–	–	–	(85)
Lapse of LTIPs under the employee share plan	(11)	–	–	–	(11)
Transfers	(175)	175	–	–	–
<b>At 31 December 2017</b>	<b>8,983</b>	<b>(1,373)</b>	<b>47</b>	<b>22,222</b>	<b>29,879</b>

\* Employee share plan costs under IFRS 2 include £159 thousand of charges that were expensed during the year

## Employee share plans – Equity settled

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

	E P Number of units	MRP Number of units	EDRP Number of units	LTIP Number of units
Outstanding at 1 January 2016	–	7,143,610	6,500,000	1,843,300
Exercisable at 1 January 2016	–	–	–	–
Granted during the year	7,548,701	2,865,290	–	–
Forfeited during the year	(452,358)	(538,086)	–	(1,416)
Outstanding at 31 December 2016	7,096,343	9,470,814	6,500,000	1,841,884
Exercisable at 31 December 2016	–	9,470,814	6,500,000	–
Exercisable after subdivision and conversion (including roundings)	354,826	473,566	325,000	92,096
Awarded during the year	1,756,923	–	–	–
Exercised during the year	(9,533)	(206,314)	–	–
Lapsed during the year	–	–	–	(1,029)
Forfeited during the year	(15,512)	–	–	(3,971)
<b>Outstanding at 31 December 2017</b>	<b>2,086,704</b>	<b>267,252</b>	<b>325,000</b>	<b>87,096</b>
<b>Exercisable at 31 December 2017</b>	<b>2,086,704</b>	<b>267,252</b>	<b>325,000</b>	<b>87,096</b>

Note: all options are nil cost and therefore the weighted average exercise price is nil

Detail disclosure of each employee share plan scheme is in the Group consolidated accounts note 27.

# PARENT COMPANY FINANCIAL STATEMENTS – NOTES FOR THE YEAR ENDED 31 DECEMBER 2017 CONTINUED

## **15 Other reserves** continued

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

The total charge for the year was £0.39 million. Of this amount, £0.34 million was capitalised and £0.05 million was charged to the income statement.

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

The total charge for the year was £nil (2016: £1.8 million). Of this amount, £nil (2016: £0.6 million) was capitalised or recharged to joint venture partners and £nil (2016: £1.2 million) was charged to the income statement.

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

The total charge for the year was £nil (2016: £0.8 million). Of this amount, £nil was capitalised (2016: £0.47 million) and £nil was charged to the income statement (2016: £0.33 million).

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

The total charge for the year was £0.11 million (2016: £0.40 million). Of this amount, £0.09 million was capitalised (2016: £0.38 million) and £0.02 million was charged to the income statement (2016: £0.02 million credited to the income statement).

### **Value Creation Plan (“2014 VCP”)**

The total charge for the year was £0.52 million (2016: £1.76 million). Of this amount, £0.43 million was capitalised (2016: £1.10 million) and £0.09 million was charged to the income statement (2016: £0.66 million).

### **Other share based payments**

Detailed disclosure of other share based payments is in the Group consolidated accounts note 27.

### **Share Incentive Plan (“SIP”)**

The total charge for the year was £0.2 million (2016: £0.27 million). Of this amount, £0.19 million was capitalised (2016: £0.263 million) and £0.01 million was charged to the income statement (2016: £0.007 million).

## 16 Capital restructure

During the year ended 31 December 2016, the Company disclosed that it expected to be non-compliant with its leverage covenants under its secured bond agreement 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.

A gain of £4.9 million (net of fees of £2.5 million) arising from the restructure has been recognised for the year.

## 17 Related party transactions

### (a) With Group companies

A summary of the transactions in the year is as follows:

	Year ended 31 December 2017 £000	Year ended 31 December 2016 £000
<b>Amounts due from/(to) subsidiaries:</b>		
At January 2017	75,861	102,043
Services performed (for)/by subsidiary	2,676	437
Net cash advances	7,092	(14,808)
Group loan interest	11,379	13,358
Impairment	-	(9,122)
Revaluations	9,341	(16,048)
<b>At 31 December 2017</b>	<b>106,349</b>	<b>75,860</b>
	Year ended 31 December 2017 £000	Year ended 31 December 2016 £000
Amounts due from subsidiary undertakings	30,718	38,987
Amounts due to subsidiary undertakings	(145,751)	(173,129)
Loans to Group companies	221,382	210,002
<b>Total</b>	<b>106,349</b>	<b>75,860</b>

## PARENT COMPANY FINANCIAL STATEMENTS – NOTES FOR THE YEAR ENDED 31 DECEMBER 2017 CONTINUED

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.

### **(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 Director's Remuneration Report.

Prior to the restructuring, C. McDowell held \$0.24 million (2016: \$0.25 million) of bonds issued by the Group. Mr McDowell elected to participate fully in the voluntary debt for equity swap on his secured bond holding resulting in an allotment of 4,383,441 shares. Following the consolidation and subdivision of shares, the holding equalled 219,170 shares. In 2016, he received interest of \$0.03 million. Accrued interest at 31 December 2016 was \$6.9 thousand.

### **18 Subsequent events**

On 24 January 2018 the Group issued 69,195 Ordinary £0.00002 shares in relation to the Company's SIP scheme. The shares were issued at £0.69 resulting in share premium of £47,570.

# OIL AND GAS RESERVES AS AT 31 DECEMBER 2017

The Group's estimate of proved plus probable reserves at 31 December 2017 are taken from the Group's internal estimates for the Group's oil and gas fields as of 31 December 2017 together with adjustments for production. 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 mmbbls	Gas Bcf	Total mmboe
At 1 January 2017	12.69	3.95	13.37
Additions during the year	-	-	-
Revision of previous estimates	1.40	(1.41)	1.16
Production	(0.84)	(0.29)	(0.89)
Total change during the year	0.56	(1.70)	0.27
<b>At 31 December 2017</b>	<b>13.25</b>	<b>2.25</b>	<b>13.64</b>

## IGAS ONSHORE UK LICENCE INTERESTS

Licence	Fields	Area km <sup>2</sup>	IGas interest	Operator	Other partners
<b>East Midlands</b>					
AL009	Dunholme	9	100%	IGas	
EXL288	Trumfleet <sup>2</sup>	75	75%	IGas	INEOS
ML3	Egmanton	26	100%	IGas	
ML4	Gainsborough, Beckingham, Corringham, Glentworth	72	100%	IGas	
ML6	Bothamsall	11	100%	IGas	
ML7	South Leverton	11	100%	IGas	
PEDL006	Cold Hanworth	136	100%	IGas	
PEDL012		33	55%	IGas	INEOS
PEDL139		100	32%	IGas	INEOS, Egdon, Ecorp
PEDL140		142	32%	IGas	INEOS, Egdon, Ecorp
PEDL146		276	75%	IGas	INEOS
PEDL169 <sup>1</sup>		62	80%	IGas	Egdon
PEDL200		114	55%	IGas	INEOS
PEDL210	Hemswell	116	75%	IGas	INEOS
PEDL273 <sup>4</sup>		194	35%	IGas	Total, Egdon, INEOS
PEDL 278		38	50%	IGas	Egdon
PEDL305		143	35%	IGas	Total, Egdon, INEOS
PEDL316		111	35%	IGas	Total, Egdon, INEOS
PEDL317	Hemswell	39	100%	IGas	
PEDL337	Beckering	10	100%	IGas	
PL162 <sup>2</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	
<b>Weald Basin</b>					
DL002	Stockbridge	10	100%	IGas	
DL004	Albury	14	100%	IGas	
ML18	Bletchingley	8	100%	IGas	
ML21	Bletchingley	9	100%	IGas	
PEDL021	Goodworth	50	100%	IGas	
PEDL070	Avington	18	50%	IGas	Egdon, Aurora, UKOG, Brigantes, Corfe
PEDL233	Baxters Copse	89	50%	IGas	UKOG
PEDL235	Godley Bridge	100	100%	IGas	
PEDL257	Lingfield	28	100%	IGas	
PEDL326		95	100%	IGas	
PL182	Palmers Wood	55	100%	IGas	
PL205	Storrington	18	100%	IGas	
PL211	Horndean	27	90%	IGas	UKOG
PL233	Stockbridge	58	100%	IGas	
PL240	Singleton	46	100%	IGas	
PL249	Stockbridge	16	100%	IGas	



Licence	Fields	Area km <sup>2</sup>	IGas interest	Operator	Other partners
<b>North West</b>					
EXL273		48	15%	INEOS	INEOS
PEDL056	The Potteries	2	100%	IGas	
PEDL145	Doe Green	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		200	30%	INEOS	INEOS
PEDL295		200	30%	INEOS	INEOS
<b>Scotland</b>					
P1270	Lybster	16	100%	IGas	
PEDL158	Lybster	46	100%	IGas	

## Notes

- <sup>1</sup> Dunholme, Hemswell, Beckering, Albury, Baxters Copse, Godley Bridge and Lingfield are undeveloped fields
- <sup>2</sup> Trumfiet Field was abandoned in 2009 prior to IGas acquiring an interest in licence EXL288
- <sup>3</sup> PEDL169 licence area also has CMM operations operated by Alkane with no IGas interest
- <sup>4</sup> PEDL273 licence area has six CMM vents operated by Alkane under PEDL274 and PEDL037 with no IGas interest
- <sup>5</sup> P1162 licence area includes the Hatfield Moor Gas Storage Facility operated by Scottish Power with no IGas interest
- <sup>6</sup> P1199 also includes Whisby field operated by Blackland Park with no IGas interest

# 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
NBP	National balancing point - a virtual trading location for the sale and purchase and exchange of UK natural gas.
PEDL	United Kingdom petroleum exploration and development licence
PL	Production licence
Tcf	Trillions of standard cubic feet of gas
UK	United Kingdom

# GENERAL INFORMATION

## Directors

R McTighe – Non-executive Chairman  
S Bowler – Chief Executive Officer  
C McDowell – Non-executive  
P Jackson – Non-executive  
T Kumar – Non-executive

## Company Secretary

Cooley Services Limited  
Dashwood  
69 Old Broad Street  
London EC2M 1QS

## Nominated Adviser and Joint Broker

### Investec Bank plc

2 Gresham Street  
London  
EC2V 7QP

## Joint Broker

### Canaccord Genuity

88 Wood Street  
London  
EC2V 7QR

## Registrar

### Computershare Investor Services plc

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## Auditor

### PricewaterhouseCoopers LLP

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## Banker

### Barclays Bank Plc

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## Registered Office

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## Copies of Reports and Accounts

Further copies of this Annual report and accounts can be obtained from the Registered Office of IGas Energy plc (IGas Energy).

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