

Parent: 07055133

Company Registration No: 05299925

UK Oil & Gas PLC

**Annual Report and Accounts
For the year ended 30 September 2018**

Company Registration No 05299925



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Forward-looking Statement

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

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

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

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

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

OUR BUSINESS

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

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

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

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

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

In order to move our business forwards, we maintain a high level of operational activity, conducting near continuous drilling and flow testing operations since May 2017. Our forward programme announced in January 2019 will continue this philosophy with nine further wells and flow tests planned over the next two years.

This operational programme is designed to bring our first operated field, Horse Hill, into long term production by the end of 2019 and our Arreton oil discovery and Godley Bridge gas discovery, potentially significantly larger than Horse Hill, into long term production testing during 2020.

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

OUR STRATEGY

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

1. **Find and Develop Low-Cost and Long-life Assets** - continuing to invest in our potential near-term production assets is a key priority. Once in production the revenues from these assets will provide free cash flow to re-invest and deliver shareholder returns. This strategy is embodied by the current focus on Horse Hill, where our goal is to make the field the Weald Basin's number one oil producer by end 2019 and generating free-cash in 2020.
2. **Resource and Reserve Growth** - building our recoverable resources, reserves and future production through targeted and disciplined high-impact exploration, appraisal projects and acquisitions. The Arreton south exploration prospect and Godley Bridge gas project exemplify this strategy.
3. **Targeted Portfolio Management** - we continuously review and high-grade our portfolio to either acquire or divest further stakes in existing assets. We also look to acquire assets at any stage in the life cycle and are not limited by geography where we can create significant value for shareholders. The acquisition of further interests in Horse Hill and the relinquishments of Baxters Copse and offshore Isle of Wight demonstrate our adherence to active portfolio management.

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

STATEMENT FROM THE CHAIRMAN

I have been involved in UK Oil & Gas PLC since 2015, as a Director since March 2017 and more recently I was appointed as Non-Executive Chairman in August 2018. This is my first Annual Report and I am pleased to see the Company is in a financially strong position with an exciting operational pathway to oil production.

This year the management has been focused on advancing all its assets and importantly changing its listed status from an investment to an operating company. This is a critical move and allows UKOG to control its own destiny by being able to manage and operate its assets by implementing its strategic objectives.

I have been extremely encouraged to see the positive strides taken by the management and contractors to push the limits of our understanding of the Weald Basin, despite the many critics that have come and gone. That push does not always yield barn storming results like the "Gatwick Gusher", but at times subtle data points that are critically valuable in understanding the greater upside picture, as we experienced at Broadford Bridge.

I believe UKOG is an oil and gas business that is going somewhere fast. With current management, there are no such things as "down time" or "quiet periods". From where I come from in Texas, that suits me well, as companies of this size typically have 2 to 3 rigs running a continuous drilling program. Despite the regulatory and social hurdles, we are leading the onshore UK in asset exploitation, which signals we are rightly perceived as positive stewards of the locations we are exploring.

As our businesses operate in the onshore UK, 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. Our focus on health, safety and the environment therefore continue to be a key priority across the business. We covet the trust that communities have developed in us and endeavour to maintain and improve it whilst striving to meet our ambitious strategies.

We are diligently working to bridge the technology gaps between the US and the UK to employ best practices in the exploration, exploitation, and development of our Weald Basin holdings. These efforts afford UKOG a key advantage to deliver an opportunity to move the needle on decoupling reliance on imported energy and achieve maximum value for our shareholders. The push to take Horse Hill into production later this year ensures an exciting 12 months ahead, building on all the hard work and planning during 2018. The Company learned a huge amount from Broadford Bridge and now it can apply that knowledge to future projects at Godley Bridge, within the PEDL234 licence and Arreton on the Isle of Wight.

This represents a tremendous schedule of work for UKOG, but I have absolutely no doubt that the Company will deliver the goods in a logical and strategic way. 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. I also wish to thank our shareholders for their continued support.

Allen D Howard
Non-Executive Chairman
14 March 2019

CHIEF EXECUTIVE'S STATEMENT

The past year has seen significant and positive developments to our corporate structure, operations and finances. Consequently, the Company is altogether much stronger than at any time in its history and is well positioned for significant and continued growth in the UK onshore sector. We have a large and high-quality asset portfolio, significant net discovered oil resources, a clear-cut strategy for monetisation and the expertise and capital necessary to deliver our goals. UKOG is in a good place.

Overview and goals

Our stated aim is to become the largest oil producer in the Weald Basin and amongst the top three UK onshore oil producing companies by winter 2019/20. It is an ambitious goal for such a young company. The Company's performance, excellent Horse Hill operational results and an unrivalled ability to access and employ significant capital during the period compared to our UK onshore peers, means we are well positioned to deliver this important goal.

People

Oil and gas is a supremely collaborative business. Achieving goals, therefore, begins and ends with people. Our current and future success is, and will remain, down to the efforts and expertise of UKOG's core team, who are amongst the best in the business. They deserve much credit, as do the many contractors, consultants, regulators and stakeholders who support us.

To this end, we have been fortunate to recruit further talented staff to help handle our growing activities and welcomed a new non-executive director, Nicholas Mardon Taylor, a seasoned finance and oil & gas man to the board.

Market place

The reporting period saw significant volatility in oil prices, chiefly driven by the interplay of OPEC quota uncertainty, buoyant US shale oil production, fluctuating US inventory levels, geopolitical fall-out from President Trump's foreign policy and general global financial uncertainty. Oil prices have, fortunately, stabilised at around \$65/barrel (bbl).

While UKOG is not immune to such price volatility, the expected high flow rates of high-quality crude around 1,000 bbl of oil per day (bopd) per horizontal production well at Horse Hill, plus our other geologically similar oil discoveries, means that our production costs per barrel are forecast to be significantly below those of our UK competitors. The corresponding net-back per barrel (revenues after operating costs), at current Brent prices, is expected to be in the order of more than \$40/bbl.

Payback times for capital costs are also forecast to be correspondingly rapid, being measured in months, much quicker than the several years many less productive onshore UK wells take to recover costs. Our future production business, therefore, looks set to be financially solid.

UKOG's role in the UK

Even factoring in the complete replacement of petrol/diesel cars to electric vehicles, oil import dependence is forecast to be over 65% of demand by 2030. UKOG believes that UK oil demand will therefore remain strong and that indigenous UK onshore oil has a significant future role in helping redress the UK's increasing reliance on imported oil.

The decline in North Sea oil production means current and future demand must be met by long-distance imports, often from countries with less rigorous environmental, HSE and political climates than the UK.

Around 50%, or 650,000-700,000 bopd, of current UK daily oil consumption provides feedstocks for essential petroleum products and powers UK aviation. Petroleum products are essential to our manufacturing sector, particularly in communications, computing, electrical products, medical technology, consumer goods, cars, boats, planes, to name a few. We do not see this sector demand diminishing, if anything it could grow via increased demand for oil-based products and materials in the renewable energy, electric vehicle and aviation sectors.

CHIEF EXECUTIVE'S STATEMENT (CONTINUED)

UKOG's current and future core Kimmeridge and Portland oil production, therefore, has a potentially important place in helping increase UK energy security, creating wealth and jobs in a post-Brexit world, and injecting a share of revenue directly into communities surrounding our sites. A healthy onshore sector could help bring the UK back towards oil independence in our lifetime.

Corporate restructuring

On 1 August 2018 we successfully readmitted to AIM as a fully-fledged oil & gas operating company. The move was a crucial one, as it enabled the Company to maximise its exposure to success through the ability to hold controlling interests and operate projects without the need for special derogations from AIM. To reflect the change, the Company was renamed from UK Oil & Gas Investments PLC to UK Oil & Gas PLC.

We immediately used this new status to gain a majority controlling interest in Horse Hill Developments Ltd (HHDL), the operator of our flagship Horse Hill production project and the surrounding licences. HHDL is now a UKOG subsidiary company. Except for our two production assets, Horndean and Avington, we now hold either 100%, or a majority operated interest in all of our oil and gas licences.

Financial strength and excellent access to capital

During and beyond the reporting period, UKOG continued to be one of the largest single traded stocks on the AIM market. This liquidity enabled us to raise approximately £23 million. This financing was used to fund successful operations, multiple strategic acquisitions and working capital acquisitions necessary for our growth. UKOG's ability to raise funding quickly and in response to good opportunities is one of our underlying strengths.

We also saw significant revenues generated from UKOG's operated flow test production at Horse Hill. Much of the production benefitted from oil prices of \$70-80/bbl, with test lifting costs of around \$20-\$27/bbl and full-scale production costs projected to be below \$20/bbl. Current plans envisage Horse Hill test revenues to continue throughout 2019 with the goal of long-term field production revenues by year end.

We are optimistic that Horse Hill's horizontal production targets of 720-1,080 bopd per well can be met and that subject to these production rate and regulatory approval, Horse Hill will be able to generate free cash flow in 2020. The addition of proven and probable reserves at Horse Hill will also facilitate possible reserve-based lending (i.e. debt facilities) which can further help reduce the need for equity dilution.

Operational performance

During and post the reporting period we started the process of maximising value from our leading Weald Basin acreage position. We commenced near-continuous drilling and testing operations at Broadford Bridge in May 2017. Following our recently announced 9-well production, appraisal and exploration programme, the largest and most comprehensive in the UK sector, we are set to remain in continuous operational mode beyond 2020.

Operations during and post the reporting period were primarily aimed at converting our significant 15.6 million barrels (MMbbl) of discovered oil resources into bankable reserves and future expected production revenues. Note that the 15.6 MMbbl currently excludes the expected upgraded of post-test Horse Hill Portland reserves, potential PEDL234 Portland gas and Kimmeridge reserves. We therefore expect these additions to significantly boost net reserves and resources in the next reporting period.

Following the Broadford Bridge Kimmeridge oil discovery, which we plan to appraise and long-term test in 2020, operations since June 2018 have focussed primarily upon verifying commerciality at Horse Hill and subsequently moving it towards full-scale production.

Test results to date were beyond our expectations, with over 35,000 bbl total Portland and Kimmeridge production to date. The tests also confirmed that the Portland is commercially viable with expected recoveries possibly exceeding 30% of the 30 million barrels of oil in place, provided early reservoir pressure support is implemented. Portland production now exceeds 10,000bbl.

CHIEF EXECUTIVE'S STATEMENT (CONTINUED)

The Kimmeridge also performed well, producing over 25,000 bbl of 40° API Brent crude, mostly post the reporting period. Test data confirmed that the Kimmeridge Limestone 3 ("KL3") and KL4 horizons are part of one large single oil reservoir, likely extending downwards a further 300 ft or more below the base of KL3, a 600 ft vertical extent. This, combined with the absence of any produced formation water, almost certainly means the oil is part of a continuous oil deposit of considerable vertical and lateral extent.

The determination of the Kimmeridge continuous oil deposit's extent will be further defined by the forthcoming HH-1z horizontal well, which we anticipate will be long-term production tested in late spring/early summer after drilling and completion.

Future operations

Our prime post period 2019 operational focus is to bring Horse Hill into long-term production by our target date of the end of 2019. The first new horizontal Portland well, HH-2, is anticipated to be drilled in spring 2019 and to be put on long-term test thereafter. Upon the grant of the necessary long-term production consents, expected in autumn 2019, test production is planned to switch seamlessly into long term production, to be followed by up to two further horizontal producers and a reservoir pressure support well.

Attainment of HH-2's test production target of 720-1080 bopd could make Horse Hill the Weald's top oil producing field before the end of 2019, a significant milestone. Target rates from the HH-1z Kimmeridge well could also boost aggregate field production to above 2,000 bopd, making Horse Hill the second largest oil producing field in the onshore UK after Perenco's Wytch Farm.

Following Horse Hill, we are excited by the prospect of drilling and testing Arreton-3 on the Isle of Wight in early 2020, which contains the lion's share of our discovered oil resources. Arreton is very much a geological look-alike to the Horse Hill Portland, yet it contains four times the oil in place (OIP) within three stacked Jurassic reservoirs. Arreton also has significant underlying naturally fractured Kimmeridge potential.

Should Arreton-3 testing prove commercial viability, we plan to move directly to drill the look-alike Arreton South prospect, which contains almost twice the Portland OIP of Horse Hill's Portland oil field.

Next year will also see appraisal drilling in PEDL234 in the central Weald. First at the Godley Bridge Portland gas discovery, where around half of the circa 56 billion cubic ft ("Bcf") gas in place of this large geological structure is prognosed to lie, and secondly with a return to the Broadford Bridge Kimmeridge oil discovery, to drill and test a new Kimmeridge sidetrack.

Further exploration is expected both within the Kimmeridge underlying the Godley Bridge gas discovery and a new Kimmeridge well in PEDL234 between Godley Bridge and Broadford Bridge.

Regulatory permit activities for future operations are well advanced and significant monies have been allocated to these crucial activities. It is our aim to build a 'hopper' full of permitted drilling opportunities to maintain our operational momentum.

We also take our responsibility to abandon our sites very seriously. This year we saw the successful plugging and abandonment of Markwells Wood-1 to high industry standards. Landscaping the site back to its original woodland setting will be completed before year end.

CHIEF EXECUTIVE'S STATEMENT (CONTINUED)

Injunction

In direct response to the unlawful and sometimes violent actions of protesters at our Horse Hill site in November 2017 and August 2018, the Company was successfully granted a wide-ranging injunction preventing protesters from a range of activities aimed directly at causing UKOG harm.

The action was primarily undertaken to protect our interests and to ensure the safety of our staff and contractors, but also to make a positive stand against those who believe that their viewpoint justifies unlawful acts that deny others their rights.

We will continue to do all in our power to ensure the safety of our staff and contractors and allow UKOG to carry out its day-to-day business to fulfil its obligations to its shareholders and stakeholders.

Community

Prior to the start of operations at Broadford Bridge we implemented a policy of open face-to-face engagement with our neighbours and stakeholders. This was exemplified by the construction of a viewing platform at the site where residents, councillors, regulators, media and other stakeholders in the community could observe our actions, be briefed and ask questions. The practice has continued at Horse Hill. To date we have welcomed over 400 visitors to our sites and built many good long-term relationships.

We believe such an open policy is paramount to demonstrate to the community that their concerns are understood and receive our attention, together with dispelling the many myths and scaremongering promulgated by our opponents.

UKOG has also committed to set aside around 6% of gross revenues from its production for the community. This royalty would pay local business rate taxes, with the remainder going into a community fund for the benefit of those surrounding our sites. We believe it is right that communities benefit from our activities, however temporary.

Outlook

The prospect of free cash flow and associated proven and probable reserves from Horse Hill in the next financial year, places the Company in a strong position to deliver its ambitious 2020 drilling plans and the associated growth. Horse Hill can solidly underpin our future.

Since our projects to date have demonstrated the ability to produce at high flow rates compared to usual onshore UK wells, we therefore have a significant measure of protection against volatile oil prices. We will, of course, strive to keep our costs as low as practicable, whilst not being afraid to spend capital sums on new technologies that can ultimately deliver higher returns and rewards.

The Company will also not stand on its laurels and will continue to optimise its portfolio, rationalise ownership of key assets and seek further investment opportunities, both in the UK onshore and elsewhere. Whilst much of our current operational plan could be funded by internally generated future cash flow, we do not rule out the need for additional funding for new opportunities that could provide a step change in growth.

We look forward to making a significant contribution to the energy security and prosperity of the UK and to sharing the fruit of the UK's geological wealth with our closest neighbours.

Stephen Sanderson
Chief Executive
14 March 2019

PRINCIPAL RISKS AND UNCERTAINTIES

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

Key risk areas

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

Risk	Mitigation	Magnitude and likelihood
Strategic risks		
Exposure to political risk , due to changes in government or government policies UKOG could be exposed to significantly different regulatory or fiscal environments which could affect the ability of UKOG to deliver to its Strategy	Through industry associations and direct contact, the Group engages with Government and other appropriate organisations to ensure the Group is kept abreast of expected potential changes and takes an active role in making appropriate representations.	Magnitude- High Likelihood - Medium
Operational risks		
Permitting risk , planning, environmental, licensing and other permitting risks associated with our operations particularly with exploration drilling operations	The Group has to date been successful in obtaining the required permits to operate. Therefore, UKOG considers that such risks are partially mitigated through compliance with regulations, proactive engagement with regulators, communities and the expertise and experience of the management teams.	Magnitude- High Likelihood – High
Exploration risk , The Group fails to locate and explore hydrocarbon bearing prospects that have the potential to deliver commercially, e.g. key wells are dry or less successful than anticipated	Analysis of available technical information to determine work programme. Risk sharing arrangements entered to reduce downside risk	Magnitude- High Likelihood – High
Loss of key staff , Loss of key staff	Provide and maintain competitive remuneration packages to attract the right calibre of staff. Build a strong and unified team.	Magnitude- High Likelihood – Low
Financial risks		
Liquidity risk , exposure through its operations to liquidity risks.	The Board regularly reviews UKOG's cashflow forecast and the availability or adequacy of its current facilities to meet UKOG's cash flow requirements	Magnitude- High Likelihood - Medium

OPERATIONAL REVIEW AND OUTLOOK

This was a busy and exciting operational period for UKOG. It began with extended well tests (EWTs) at Broadford Bridge in West Sussex, followed by EWTs at Horse Hill in Surrey. After the reporting period, UKOG completed its first UK well abandonment operation at Markwells Wood located within the South Downs National Park.

Horse Hill, PEDL137 and PEDL246 (UKOG 50.64%)

Horse Hill-1 (HH-1) testing operations began in June 2018 following receipt of regulatory permits. The licence is operated by our subsidiary company, Horse Hill Developments Ltd (UKOG 77.9% controlling shareholding), which holds a 65% direct interest in the field and surrounding highly prospective licences.

A test of the HH-1 Portland sandstone discovery was successfully carried out, using the same linear rod pump as had been previously used at Broadford Bridge. The Portland interval was also successfully re-perforated, leading to significantly increased oil flow rates. The Portland oil discovery was declared to be commercially viable in October 2018.

To date, over 10,000 bbl have been produced from the Portland, with production planned to continue until the commencement of the next well, HH-2 in Spring 2019. Since February 2019, the well has been produced steadily and continuously averaging around 220 bopd. This rate has been purposefully kept below the maximum theoretical rate of 360 bopd, for prudent reservoir management reasons.

Testing of the HH-1 Kimmeridge Limestone (KL) oil pool from perforated zones in KL3 and KL4 began in October 2018, following the reporting period and was completed in February 2019. Over 25,000 bbl of oil was produced and sold from the two Kimmeridge zone. As reservoir pressure data showed the Kimmeridge acts as one single naturally fractured reservoir, flow was commingled from both zones.

The Kimmeridge pool is currently shut-in for a long term pressure build-up test. To gather further data post shut-in, production may be resumed for a short duration prior to drilling the planned HH-1z sidetrack, which is planned to follow HH-2 in late Spring 2019. As a result of learnings from Broadford Bridge, no dilute acid was injected into the Kimmeridge during the testing sequence.

Total combined Portland and Kimmeridge test production now exceeds 35,000 bbl with all production to date being delivered and sold to local UK oil terminals.

Preparations are now well advanced for the next major activities at the HH well site, which will involve the drilling and testing of a new horizontal Portland well, HH-2, plus drilling and testing of the HH-1z Kimmeridge sidetrack. Both the new wells have Surrey County Council (SCC) planning approval and Environment Agency (EA) permits.

Subsequent to the reporting period, a planning application (to SCC) and permit application (to EA) were submitted for Horse Hill long-term production. The application includes 6 production wells (including HH-1z and HH-2) plus a reservoir pressure support (i.e. water re-injection) well.

Godley Bridge, Broadford Bridge, PEDL234 (UKOG 100%)

Following drilling and completion of the Broadford Bridge-1z Kimmeridge oil discovery (BB-1z), a comprehensive series of test operations were undertaken over much of the c. 1000 ft perforated section. Abundant live oil and wet gas shows were encountered throughout the Kimmeridge section, with oil being recovered to surface from multiple KL units, notably from the KL5 zone. However, the flow rates obtained were non-commercial.

Post well analysis concluded that the acidisation process, used to clean perforations and the near wellbore, likely released fine grained clay particles from the rocks, which then either blocked or significantly reduced the flow potential of the Kimmeridge's natural fractures. Consequently, we believe that the tests did not access the true flow potential of the oil saturated Kimmeridge and it is now planned to return to the BB well site to drill and test a further sidetrack well, BB-1y. No dilute acid will be injected into the Kimmeridge during the testing phase.

There were also many other vital learnings and innovations from the drilling and testing activities, which will be invaluable in future operations.

OPERATIONAL REVIEW AND OUTLOOK (CONTINUED)

During the period, technical studies were finalised over the potentially significant Godley Bridge Portland gas discovery, located in the northwest of the licence within a large geological anticlinal structure of some 40 km² areal extent.

The extreme western edge of the gas accumulation was discovered by Conoco's 1980s Godley Bridge-1 well and shows the Portland sandstone gas reservoir to be of similar reservoir quality to our Horse Hill well. UKOG's internal calculations show the discovery likely contains around 56 Bcf of gas in place, around half of which lies within PEDL234.

We acquired a drilling site, held a community engagement meeting post period and plan to submit a planning application in spring 2019 to drill Loxley-1, whose primary objective is to drill, core and test the centre or "crest" of the Portland gas accumulation. If the initial test is successful, the plan is to drill and test a horizontal sidetrack, Loxley-1z, within the Portland and long term test to establish commercial viability.

We envisage any future gas development will either export gas directly into the national gas grid or will be utilised to generate electricity which can be fed into the national power grid.

The initial Loxley-1 well is planned to spud in 2020, subject to receipt of regulatory consents and will also drill, core and test the underlying Kimmeridge section which lies in a geological feature over twice the size of Horse Hill. Neither the Portland or Kimmeridge sections will utilise acidisation for the reasons given above.

Isle of Wight Arreton oil discovery and Arreton South Prospect, PEDL331 (UKOG 95%)

Since this licence contains the lion's share of our discovered audited recoverable conventional oil resources (UKOG net 15.6 MMbbl) preparations for the submission of two planning consent and permit applications for two well sites are nearing completion. Leases on two sites were finalised with the first application, for the Arreton-3 appraisal well, expected to be submitted in late Spring, with the Arreton South exploration well to follow.

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

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

PEDL143 (UKOG 40%)

Following the Secretary of State for Environment, Food and Rural Affairs refusal in September 2018 to renew Europa Oil and Gas' lease for the Coldharbour Lane drilling site, the joint venture group continues to investigate opportunities to drill elsewhere within the licence to test the significant Horse Hill look-alike Portland and Kimmeridge prospect underlying the centre of the block. Following consent from the partners and subject to final Oil and Gas Authority consent, UKOG will assume PEDL143 operatorship and will make best efforts to push this potentially significant project forwards.

Markwells Wood, PEDL126 (UKOG 100%)

Following a strategic portfolio review, it was decided that the Markwells Wood-1 (MW-1) oil discovery was of limited potential and not a priority for further UKOG investment. Subsequent to the reporting period, UKOG demonstrated its environmental credentials by carrying out P&A operations on the MW-1 well.

Three cement plugs were set in the well and the wellhead was removed, leaving the well fully safe and in strict compliance with Health and Safety Executive, EA and UK oil & gas industry standards. The Markwells Wood site will now be restored during 2019 to its original woodland condition, using the original topsoil that has been stored on location

OPERATIONAL REVIEW AND OUTLOOK (CONTINUED)

Other assets

The Horndean oil field in Hampshire (UKOG 10%) continued stable oil production averaging around 140-150 bopd gross with low water cut during the period.

The P1916 offshore Isle of Wight licence (UKOG 100%) was relinquished on 31 January 2018. The Baxters Copse licence (PEDL233, IGas Energy operator, UKOG 50%) was relinquished during the reporting period.

Technology

Our operations have incorporated many new UKOG-developed innovations. To reduce the visual impact, operational footprint and costs of flow testing, we introduced rig-less test operations (using a crane instead of a workover rig) at both Broadford Bridge and Horse Hill. We also pioneered the UK onshore's first use of an ultra-quiet, clean burning enclosed flare at Horse Hill (i.e. the flame is not visible). The flare was developed in conjunction with PW Well Testing, and Landfill Systems from equipment used in UK landfill sites. It allows full high temperature combustion of natural gas, leading to reduced air emissions. Residents visiting our site have commented at how very quiet the flare is.

Matt Cartwright
Chief Operating Officer
14 March 2019

FINANCIAL REVIEW

Income statement

In 2018, production continued from Horndean generating revenues of £0.23 million. Cost of Sales during the period decreased. This was driven by shutting in the Avington well, which had been loss making. The result was a gross profit of £0.13 (2017: loss £0.05 million).

Administration costs increased from £1.86 million during the period ending 30 September 2017 to £3.24 million during the period ending September 2018. The main drivers for this was an increase in legal and AIM related expenses associated with the readmission of UKOG on AIM as an operating company. These costs jointly contributed £1.1 million in expenses (2017: £0.36 million).

The net effect of the above was to increase the operating loss to £3.76 million compared to £2.40 million in the previous financial year.

There was also one exceptional charge. This was an exploration and evaluation write-off of £11.56 million. This was primarily comprised of a £9.25 million write-off of the BB-1 well and the BB-1z test. The BB-1 well was impaired, as it was determined that as a result of wellbore damage we would be unable to be used for production. The BB-1z test was impaired because, although oil flowed from the well it was determined that it was unlikely to be commercial. The larger majority of the remaining exploration write off (£1.21 million) related to Holmwood where the operator abandoned the site.

This exceptional charge resulted in a loss before taxation of £16.75 million, compared to £2.27 million in the period ending 30 September 2017.

Cash flow and financing

During the reporting period net cash outflow from operating activities prior to movements in working capital was £2.82 million (2017: cash outflow of £1.85 million) the increased outflow is primarily attributable to the increased in administration expenses, as outlined above. After movements in working capital the cash outflows increased to £7.42 million which was a result of reduction in trade payable of £2.90 million during the period.

The Company raised £21.63 million (net of costs) during the year, which along with the cash and cash equivalents at the beginning of the period of £1.75 million was primarily used to fund our investing activities.

The cash outflow from investing activities decreased from £8.2 million versus the period ending 30 September 2017 to £3.53 million for the period ending 30 September 2018. The primary driver for this variance was lower investment in exploration and the net cash acquired (£1.89 million) via the acquisition of Horse Hill Developments Ltd ("HHDL").

As a result, the Group had a £10.68 million net increase in cash, and £12.43 million in cash and cash equivalent at the end of the period.

Balance Sheet

During 2018, non-current assets increased to £31.0 million (2017: £21.71 million), primarily as a result of the net effect of the gain associated with the Group consolidating the balance sheet of HHDL, and the exploration write off of £11.56 million. Current assets increased from £5.54 million at the period ended 30 September 2017 to £13.65 million at the period ended 30 September 2018. The drivers for this variance were the increase in cash and a corresponding decrease in trade receivables.

Our total liabilities increased to £7.86 million (2017: £4.08 million), as a result of consolidating the HHDL loans from its shareholders, and an increase in our provisions associated with the rehabilitation of our well sites.

At the end of the period, the Group had £12.43 million (2016: £1.75 million) in cash and cash equivalents.

Kiran Morzaria
Finance Director
14 March 2019

KEY PERFORMANCE INDICATORS

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

Financial KPI's			
	Production (bopd)	Operating costs (£/bbl)	Operating Cashflow £m
	2018 – 137 bopd	2018 – £18/bbl	2018 – Outflow £7.43 million
Reason for choice	The Group production will provide operating cashflow to fund our investments and deliver shareholder value. At this point in time we receive production from our ownership in the Horndean oil field which is not under our control	Operating costs per bbl will be a key focus for our operations and the focus for the Group will be to keep these costs low so as to improve the cash we can generate from our producing assets. Currently the operating costs are in relation to our ownership of the Horndean oil field, which is not under our control.	Our cashflow is key to providing funding investing in the business and pursue our strategy. This has to date predominantly been via equity and debt funding
How we measure	Daily and weekly production is monitored for all producing assets and reported to senior management. Production forecasts are prepared during the year to measure progress against the production target.	Operating costs will be monitored closely, to ensure that budget targets are being met.	Cashflow forecasts are reported to the board on a regular basis, to ensure our progress is within our budget. Long-term forecasts are also provided to ensure that the strategy of the business can be adequately funded

Non-Financial KPI's	
	Lost time injuries (LTI & LTI Frequency)
	2018 – 1, LTI Frequency 2.23
Reason for choice	Health and Safety is our highest priority and we look to provide the highest level of protection to all our stakeholders
How we measure	We track HSE lagging indicators during the year, which are reported to the Board. We aim to have a zero LTI's. If we have an LTI it is investigated, and a clear remedial action is identified and implemented

RESERVES AND OIL IN PLACE

UKOG has estimated net attributable P50 reserves of 80,000 barrels of oil (effective 31 December 2018, see Table 1 below). This figure is 19% lower than last year, due to continuing production from the Horndean oil field (UKOG 10%) and Xodus' independent evaluation of Horndean reserves. It is also expected that during the next period, once permissions for long term production are received, reserves, significantly greater than the current contingent resources, will be added from Horse Hill's Portland and Kimmeridge oil pools.

UKOG also has 25.7 MMbbl of net attributable P50 Contingent and Prospective Resources, 15.7 million barrels of this is in three non-KL discoveries (see Table 2 below). Table 2 includes net Contingent Resources for the Horse Hill Portland reservoir. However, Table 2 does not include net Contingent Resources for the PEDL234 Godley Bridge Portland gas discovery.

Gross unrisks oil in place ("OIP") for UKOG's licence interests are shown in Table 3. These OIP volumes are dominated by the Kimmeridge OIP estimated for the Horse Hill and Broadford Bridge/Godley Bridge licences. Note that the 28 Bcf UKOG calculated gas in place for Godley Bridge Portland is not included.

Table 1: UKOG's Producing Fields, Gross and Net Reserves (at 31 December 2018)

Asset	UKOG Interest	Gross Reserves (barrels)			Net Reserves (barrels)			Source, Date
		P90	P50	P10	P90	P50	P10	
Horndean	10%	340,000	800,000	1,240,000	34,000	80,000	116,900	Xodus, June 2018
Avington ¹	5%	-	-	-	-	-	-	Xodus, June 2018
TOTALS					66,300	93,200	116,900	

Note: Avington oil field current shut in.

Table 2: UKOG's Unrisks Gross and Net Resources

Asset	Licence	UKOG's Interest	Gross Resources (MMbbl)			Net Resources (MMbbl) ¹			Source, Date
			P90	P50	P10	P90	P50	P10	
Avington ^{2,5}	PEDL070	5%	0.3	0.4	0.4	0.02	0.02	0.02	Xodus, June 2018
Horse Hill Portland ²	PEDL137	50.64%	0.6	1.5	3.6	0.3	0.8	1.8	Xodus, June 2018
Arreton Main ²	PEDL331	95%	9.9	15.7	24.1	9.4	14.9	22.9	Xodus, June 2018
Arreton Prospects ³	PEDL331	95%	4.0	10.5	21.6	3.8	10.0	20.5	Xodus, June 2018
TOTALS						13.5	25.7	48.2	

Notes:

1. UKOG net share.
2. Contingent Resources.
3. Prospective Resources.
4. Contingent Resources are in barrels of oil equivalent, as they include gas.
5. IGas's internal reserves estimates for Horndean and Avington proven ("1P"), proven + probable ("2P"), proven + probable + possible ("3P") are deterministic, not probabilistic.

Table 3: UKOG Unrisks Gross OIP

Asset	Licence	UKOG's Interest	OIP (MMbbl) or GIIP (bcf)			Source & Date
			Low P90	Best P50	High P10	
Onshore Isle of Wight	PEDL331	65%	144	219	322	Xodus, January 2016
Horndean	PL211	10%	27	56	110	Northern/RPS, Feb 2010
Avington	PEDL070	5%	25	59	110	IGas/Senergy, July 2014
Horse Hill Portland	PEDL137	31.2%	22	32	47	Xodus, January 2017
Horse Hill Oil	PEDL137/246	31.2%	3,131	9,245	17,519	Nutech, June 2015
Horse Hill Oil	PEDL137/246	31.2%	N/A	10,993	N/A	Schlumberger, August 2015
Broadford Bridge/Godley Bridge Oil	PEDL234	100.0%	3,158	7,120	13,717	Nutech, December 2016

HEALTH, SAFETY AND THE ENVIRONMENT

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

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

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

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

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

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

Health and safety review

UKOG has completed well testing operations at Broadford Bridge, continued with extended well tests at Horse Hill and, subsequent to the reporting period, has plugged and abandoned the Markwells Wood oil discovery well. Multiple projects have been run simultaneously, as well as advancing planning for future projects.

During the period there was one reported lost time injury (a minor arm injury, involving bruising but no broken bones), during Broadford Bridge drilling. There were no environmental issues, including zero non-conformities or findings by the Environment Agency (EA) during their frequent and regular site visits.

UKOG continues to keep good housekeeping standards on its sites. The Company continuously monitors all its live operations for noise, ensuring noise from its sites is kept to a minimum and is compliant with the levels set by the relevant site planning approval.

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

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

Security

UKOG employs 24-hour security on its operational sites. In addition, the Company has hired a permanent dog patrol unit at Horse Hill following protester activities and evictions in December 2017 and August 2018.

Injunction

Following the incidents detailed above, UKOG was pleased that in September 2018 the High Court granted the Company an injunction covering Broadford Bridge and Horse Hill to prohibit trespass, obstruction of the entrances and the highway, slow walking in front of vehicles, targeting contractors, locking on or climbing (surfing) on to vehicles.

The judgement firmly upheld the Company's collective human, legal and democratic right to conduct its lawful business, without hindrance from the unlawful actions of activists whose intent is to cause physical, psychological and financial harm to our company, staff, contractors, supply chain and local residents.

HEALTH, SAFETY AND THE ENVIRONMENT (CONTINUED)

This injunction did not seek in any way to remove the right to peaceful protest, freedom of assembly, or freedom of expression. It sought solely to gain a judicial determination of whether certain damaging actions employed by activists at our sites constituted peaceful, lawful protest or were unlawful.

The judgement clearly ruled that trespass on UKOG's sites, interference with access to UKOG sites, obstruction of the highway (including by slow-walking, lock-ons and lorry surfing), and obstructing or interfering with our suppliers, do not constitute peaceful protest. UKOG has no issue with peaceful protest, where it does not break the law.

Community engagement

UKOG continues to attach great importance to being a good neighbour at its current and potential future sites.

We follow a comprehensive community engagement plan, listening to and engaging with our local communities, including elected officials and residents. Where possible we will change how we operate our sites and equipment to take into account comments received from the public.

Following the success of our visitor viewing platform at the Broadford Bridge site, we rebuilt it at our Horse Hill site and have welcomed numerous groups of residents and interested parties onto the site. These have included representatives from the parish councils of Charlwood and Salford & Sidlow, the Norwood Hill Residents Association, the leader of Reigate & Banstead District Council, senior figures from the Surrey County Council planning department and several groups of residents.

UKOG continues to engage with the local Member of Parliament, Crispin Blunt, who visited Horse Hill in July 2018.

The Company has met regularly with Surrey and Sussex Police and gives them frequent operational updates

In recent weeks, UKOG has held a first Community Engagement Meeting at Dunsfold Village Hall to discuss its proposed drilling site and has made visits to the Isle of Wight to visit several potential sites and to have initial conversations with elected officials.

Route to development

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

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

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

OIL PRICE ENVIRONMENT

Brent crude oil price ended 2017 at \$65/barrel ("bbl"), the highest end-of-year price since 2013. In 2018 it proved to be another year of mixed fortunes for the oil and gas industry, with prices firming up to levels that were more common pre-2014, before dipping down in November as fears of global oversupply, amid retrenchment in global economic growth, began to kick in.

As ever, politics played a key role in shaping oil markets in 2018. The backdrop to the June Vienna meeting was dominated by accelerating fears that Trump's announcement of the US withdrawal from the Joint Comprehensive Plan of Action (JCPOA) with Iran would result in a much more significant loss of supply than the initial expectations of up to 500,000 bbl/d. Inevitably, the market began factoring in a steeper fall in Iranian output in advance of the November 2018 deadline when full sanctions on Iran would kick in again. With the likes of Venezuela in meltdown, and other Opec producers such as Angola underperforming, the spectre of supply shortages began rear its head.

All this seemed to set the stage for a substantial release of Opec+ barrels onto the market. According to the Oxford Institute of Energy Studies (OIES), production numbers communicated to the Opec Secretariat revealed that Saudi Arabia started to hike its production even before the June 2018 Opec meeting. With more supply coming on stream, consumers prepared for bearish price signals to re-emerge. Yet events over the summer proved that if nothing else, the oil market is never predictable.

The Saudis gave advance warning that the Opec increase's impact would not be felt immediately, even as those who could boost supply did so: UAE production averaged 2.98 MMbopd in July, an increase of 85,000 bopd from the previous month and 110,000 bopd more than in May. Another Gulf Opec stalwart, Kuwait, saw crude oil production rise by 80,000 bopd in July to 2.8 MMbopd. Across the border, Iraqi crude oil production hit its highest level in 13 months in July at 4.46 MMbopd. Outside of Opec, Russia ramped up its crude production in July by as much as 250,000 bopd compared to May levels.

The Saudi kingdom itself showed evidence in 2018 that its overwhelming focus was on finding the hallowed 'goldilocks' pricing point, where it is neither too high that it stimulates alternative fuels and not so low that it is uneconomic in terms of production.

Meanwhile, Iran's exports and production began to wind down over the summer, suggesting pressure from US sanctions was having an effect in advance of the 4 November deadline imposed by the US for sanctions to restart. Iran exported just over 2 MMbopd in crude oil and condensate in August, according to Bloomberg tanker tracking, the lowest since March 2016, and down 28% from April of this year.

Over in the US, oil output was moving upwards, hitting 11 MMbopd by late August, putting it in earshot of becoming the world's leading producer. US supply growth is currently faster than at any point during the 2011–15 shale revolution, according to Bank of America-Merrill Lynch (BAML) research. It expects US crude oil output to exceed 12 MMbopd by the end of 2019 this milestone should turn America into the world's largest crude producer within the next few quarters.

Yet by November, much of the bullish dynamic that had characterised the oil market in 2018 had dissipated. The speed of the price decline surprised many, notably the bulls. By 23 November, Brent was trading at just \$61/bbl, the lowest level since early December 2017. In month-on-month terms, this represented a 30% fall from the October peak of more than \$86/bbl.

The cause of the price falls was pretty simple: oversupply. Data from the US Energy Information Administration in the third week of November revealed that US crude inventories had gone up 4.9 MMbbl from the previous week to 446.9 MMbbl, the highest level since December 2017. Such bearish indicators prompted Saudi Arabia to intervene. In November, Riyadh announced a 500,000 bopd cut in December supplies in an effort to halt downside losses.

By year-end market analysts viewed it likely that oil would rebound from its late 2018 weakness. The big sell off in November was in large part stimulated by a burst of US supply and favourable market reaction to the US government's issuance of sanctions waivers to eight major importers of Iranian crude.

CORPORATE GOVERNANCE

Introduction to governance

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

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

UK Oil & Gas PLC provides shareholders with a full discussion of corporate strategy within our Annual Report. A dedicated section explains how we will establish long term shareholder value, as set out on page 1.

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

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

Key business challenges and how they may be mitigated are detailed in the Strategic Report on page 8.

2. Seek to understand and meet shareholder needs and expectations

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

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

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

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

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

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

CORPORATE GOVERNANCE (CONTINUED)

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

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

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

Our operations:

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

For more information please refer to page 15 and 16 of the Annual Report as well as the Community section within the Company's corporate website.

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

Risk Management on page 23 of the Annual Report details risks to the business, how these are mitigated and the change in the identified risk over the last reporting period.

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

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

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

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

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

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

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

CORPORATE GOVERNANCE (CONTINUED)

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

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

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

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

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

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

Details of the Board performance effectiveness process will be included in the Directors' Remuneration Report on pages 25 and 26.

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

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

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

The ethical values of UKOG including health, safety, environmental, social and community and relationships, are set out on pages 7, 15 and 16 of the Annual Report.

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

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

The Corporate Governance Statement details the company's governance structures, the role and responsibilities of each director. Details and members of the Audit Committee, Remuneration Committee, Nomination Committee and AIM Rules compliance committee can be found on from page 18 to page 24.

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

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

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

CORPORATE GOVERNANCE (CONTINUED)

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

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

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

Board of Directors

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

Allen D Howard, Non-Executive Chairman

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

Stephen Sanderson, Chief Executive

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

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

Kiran Morzaria, Finance Director

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

Nicholas Mardon Taylor, Non-Executive Director (appointed 1 August 2018)

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

CORPORATE GOVERNANCE (CONTINUED)

Board and committee membership

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

The Board and its committees

Following the general meeting in July 2018, the Board of the Company consists of two Executive Directors and two Non-Executive Directors, with Nicholas Mardon Taylor considered to be independent under the Financial Reporting Council's Corporate Governance Code (April 2016) ("FRC Code"). Allen D Howard who is the Non-Executive Chairman of the Board is not considered independent under the FRC Code as he holds options in the Company. However, the Board considers that Allen Howard is independent of management under all other measures and is able to exercise independence of judgement.

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

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

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

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

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

Board Member	Meetings attended (out of a total possible)
Allen D Howard (Appointed Chairman 1 August 2018)	5/5
Stephen Sanderson (Resigned as Chairman 1 August 2018, remains as CEO)	5/5
Kiran Morzaria	5/5
Nicholas Mardon Taylor (Appointed to the Board 1 August 2018)	1/1

CORPORATE GOVERNANCE (CONTINUED)

Audit committee

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

Board member	Meetings attended (out of a total possible)
Allen D Howard	2/2
Kiran Morzaria (Resigned 31 July 2018)	2/2
Nicholas Mardon Taylor (Appointed as Chairman 1 August 2018)	0/0

The principal duties and responsibilities of the Audit Committee include:

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

Remuneration Committee

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

Board Member	Meetings attended (out of a total possible)
Allen D Howard	1/1
Kiran Morzaria (Resigned 31 July 2018)	1/1
Nicholas Mardon Taylor (Appointed as Chairman 1 August 2018)	0/0

The principal duties and responsibilities of the Remuneration Committee include:

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

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

Internal controls

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

CORPORATE GOVERNANCE (CONTINUED)

The 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;
- 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 Finance Director, Financial Controller and external auditors the significant accounting policies, estimates and judgements applied in preparing these reports.

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

UK Bribery Act

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

Relations with shareholders

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

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

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

Directors' remuneration policy

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

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

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

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

Annual statement

As a result of the Groups change from an investment company to an operating company on 1 August 2018, the Remuneration Committee is currently in the process of developing a revised remuneration plan for the Executive Directors which will reflect change in responsibilities and roles as a result of the Group's change in status.

During the year there were no bonuses paid nor were any new long-term incentive plans awarded.

During a review of option awards in April 2018 the Remuneration Committee approved the extension of the exercise period of 25 million options previously granted to Stephen Sanderson. The independent directors determined that to ensure the continued alignment of the interests of shareholders and the option holders and considering the liquidity of the Company's shares it would be beneficial to extend these options rather than allow their exercise in the current open period and consider the grant of further options to Stephen Sanderson.

As such the independent directors approved the extension of the term these options may be exercised from 31/12/2017 to 31/12/2019. All other terms and conditions relating to these options, including the exercise price, remained unchanged. Due to publication of the Company's Annual Accounts on 29/03/2018, the Directors were deemed to be insiders (as defined in the Criminal Justice Act 1993 and the Financial Services and Markets Act 2000) and were prevented from exercising these options under the provisions of UKOG's Share Dealing Code. In such an event and as noted in the Company's RNS on 09/01/2018, the exercise period is deemed to be extended for 10 business days following the date on which the option holder ceases to be an insider. This period was therefore extended to 13/04/2018.

Remit of the Remuneration Committee

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

Share price movements during the year

The Group's share price as at 28 September 2018 was 1.92p per share. The highest price during the year was 7.38p per share and the lowest share price during the year was 1.11p per share

DIRECTORS' REMUNERATION REPORT (CONTINUED)

Current arrangement in financial year (Audited)

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

The Directors' emoluments for the year were as follows:

		Year ended 30 September 2018				Year ended 30 September 2017			
		Salary	Pension	Share Based Payments	Total	Salary	Pension	Share Based Payments	Total
Director	Board Title	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Allen D Howard	Non-Executive Chairman	43	-	-	43	23	-	39	62
Stephen Sanderson	Chief Executive	275	-	309	584	240	-	99	339
Kiran Morzaria	Finance Director	108	-	-	108	100	-	79	179
Nicholas Mardon Taylor*	Non-Executive Director	9	-	-	9	-	-	-	-
Jason Berry **	Director	-	-	-	-	65	-	-	65
Total Directors		435	-	309	744	428	-	217	645

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

** Jason Berry resigned on 16 November 2016

As at the 30 September 2018, the outstanding long-term incentives, in the form of options, held by the Directors who served during the period are set out in the table below.

	At 1 October 2017	Issued during the year	lapsed / exercised during the year	At 30 September 2018	Exercise price	Date from which exercisable	Expiry date
Share options	No. million	No. million	No. million	No. million	£		
Allen Howard	10	-	-	10	0.0115	25/05/2017	24/05/2022
Kiran Morzaria	20	-	-	20	0.0115	25/05/2017	24/05/2022
Stephen Sanderson	25	-	(25)	-	0.0040	21/01/2015	31/12/2017
Stephen Sanderson	35	-	-	35	0.0182	28/09/2016	28/09/2019
Stephen Sanderson	25	-	-	25	0.0115	25/05/2017	24/05/2022
Stephen Sanderson	-	25	-	25	0.0040	13/04/2018	31/12/2019
Total	115	25	(25)	115			

Nicholas Mardon Taylor
Chairman Remuneration Committee
 14 March 2019

REPORT OF THE DIRECTORS

The Directors present their annual report together with the audited consolidated financial statements of the Group for the Year Ended 30 September 2018.

Business review and future developments

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

Principal activity and business review

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

Results and dividends

Loss on ordinary activities of the Group after taxation amounted to £16,747,000 (2017: Loss £2,268,000). The Directors do not recommend the payment of a dividend (2017: £nil). The Company has no plans to adopt a dividend policy in the immediate future.

Principal risks and uncertainties

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

Financial risk management objectives and policies

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

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

Liquidity risk

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

Key Performance Indicators

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

Going Concern

The Directors note the substantial losses that the Group has made for the year ended 30 September 2018. The Directors have prepared cash flow forecasts for the period ending 31 March 2020, which take account of the current cost and operational structure of the Group.

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

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

Events after the Reporting Period

Events after the Reporting Period are outlined in Note 25 to the Financial Statements.

Corporate governance

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

REPORT OF THE DIRECTORS (CONTINUED)

Suppliers' payment policy

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

Charitable contributions

During the year the Group made charitable donations amounting to £Nil (2017 - £Nil).

Substantial shareholdings

As at 26 February 2019, the Company had been notified of the following substantial shareholdings in the ordinary share capital:

Shareholder	Number of Ordinary Shares	Holding %
Interactive Investor Services Nominees Limited	421,839,126	11.27%
Hargreaves Lansdown (Nominees) Limited	410,897,345	10.98%
Barclays Direct Investing Nominees Limited	335,123,598	8.96%
Hargreaves Lansdown (Nominees) Limited	265,625,006	7.10%
Hargreaves Lansdown (Nominees) Limited	250,827,819	6.70%
Interactive Investor Services Nominees Limited	222,659,495	5.95%
HSDL Nominees Limited	215,696,083	5.76%
HSDL Nominees Limited	183,730,054	4.91%
HSBC Client Holdings Nominee (UK) Limited	145,213,074	3.88%

Current Board & Directors Interests

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

The directors hold options over to purchase new ordinary shares in the company, details of which are specified in the Remuneration Report on page 25 and 26. In addition Kiran Morzaria holds 4,508,178 ordinary shares in the Company

Auditor

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

Annual General Meeting

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

REPORT OF THE DIRECTORS (CONTINUED)

Statement of Directors' responsibilities

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

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

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

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

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

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

Statement as to disclosure of information to the auditor

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

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

ON BEHALF OF THE BOARD

Stephen Sanderson
Director
14 March 2019

OPINION

We have audited the financial statements of UK Oil & Gas PLC (the 'Parent Company') and its subsidiaries (the 'Group') for the year ended 30 September 2018 which comprise the consolidated statement of comprehensive income, the consolidated and company statements of financial position, the consolidated and company's statements of changes in equity, the consolidated and company's statements of cash flows and notes to the financial statements, including a summary of significant accounting policies.

The financial reporting framework that has been applied in the preparation of the group and parent company financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 30 September 2018 and of the Group's losses for the year then ended;
- the Group and Parent Company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the Parent Company financial statements have been properly prepared in accordance with IFRS as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

CONCLUSIONS RELATING TO GOING CONCERN

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

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

KEY AUDIT MATTERS

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

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

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

CARRYING VALUE OF EXPLORATION AND EVALUATION ASSETS

The Group's exploration and evaluation assets ('E&E assets') represent the most significant asset on its statement of financial position totalling £22.6m as at 30 September 2018.

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

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

How the Matter was addressed in the Audit

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

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

In addition, we obtained the expenditure budget for the 2019/20 year(s) and assessed that there is reasonable forecasted expenditure to confirm continued exploration spend into the projects indicating that Management are committed to the projects. We also reviewed AIM announcements and Board meeting minutes for the year and subsequent to year end for exploration activity to identify any indicators of impairment.

We also assessed the disclosures included in the financial statements.

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

MATERIALITY

In planning and performing our audit we applied the concept of materiality. An item is considered material if it could reasonably be expected to change the economic decisions of a user of the financial statements. We used the concept of materiality to both focus our testing and to evaluate the impact of misstatements identified. Based on professional judgement, we determined overall materiality for the financial statements as a whole to be £475,000, based on a 1% percentage consideration of the total assets and 10% consideration of an adjusted loss for the year.

OTHER INFORMATION

The Directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

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

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

OPINIONS ON OTHER MATTERS PRESCRIBED BY THE COMPANIES ACT 2006

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

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

MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

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

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

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

RESPONSIBILITIES OF DIRECTORS

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

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

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

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

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

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report

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

USE OF OUR REPORT

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

Keith Fulton

(Senior Statutory Auditor)

For and on behalf of Chapman Davis LLP, Statutory Auditor

London

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

Date: 14 March 2019

FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR YEAR ENDED 30 SEPTEMBER 2018

	Notes	30 Sep 2018 £'000	30 Sep 2017 £'000
Revenue	4	225	207
Cost of sales		(97)	(254)
Gross profit/(loss)		128	(47)
Operating expenses			
Administrative expenses		(3,244)	(1,859)
Foreign exchange gains/(losses)		12	(15)
Share based payments expense	21	(655)	(474)
Operating (loss)	5	(3,759)	(2,395)
Gain on settlements of financial instruments		-	204
Loan Interest received		198	-
Convertible loan financing fees	18	(510)	-
Share of associate loss	12	(419)	(77)
Decommissioning Expense	19	(697)	-
Exploration Write-off	9	(11,560)	-
(Loss) before taxation		(16,747)	(2,268)
Taxation	7	-	-
Retained (Loss) for the year		(16,747)	(2,268)
Retained (loss) attributable to;			
Equity holders of the Parent		(16,747)	(2,268)
Non Controlling Interests		-	-
		(16,747)	(2,268)

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

(Loss) per share		Pence	Pence
Basic and diluted	8	(0.41)	(0.08)

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

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 SEPTEMBER 2018**

	Notes	2018 £'000	2017 £'000
Assets			
Non-current assets			
Exploration & evaluation assets	9	22,644	15,110
Decommissioning Asset	9	362	-
Goodwill	9	6,290	-
Oil & Gas properties	10	1,449	1,428
Property, Plant & Equipment	10	260	170
Investment in associate	12	-	5,003
Total non-current assets		31,005	21,711
Current assets			
Inventory	14	5	4
Trade and other receivables	15	1,215	3,787
Cash and cash equivalents	16	12,427	1,748
Total current assets		13,647	5,539
Total Assets		44,652	27,250
Current liabilities			
Trade and other payables	17	(2,990)	(3,725)
Borrowings	18	(3,533)	-
Total current liabilities		(6,523)	(3,725)
Non-current Liabilities			
Provisions	19	(1,341)	(359)
Total non-current liabilities		(1,341)	(359)
Total liabilities		(7,864)	(4,084)
Net Assets		36,788	23,166
Equity			
Share capital	20	12,141	11,938
Share premium account		75,799	46,939
Share based payment reserve		1,590	1,172
Accumulated losses		(53,393)	(36,883)
		36,137	23,166
Non-controlling interest		651	-
Total shareholders' equity		36,788	23,166

These financial statements were approved by the Board of Directors on 14 March 2019 and are signed on its behalf by:

Stephen Sanderson
Director

Kiran Morzaria
Director

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

**COMPANY STATEMENT OF FINANCIAL POSITION
AS AT 30 SEPTEMBER 2018**

	Notes	2018 £'000	2017 £'000
Assets			
Non-current assets			
Exploration & evaluation assets	9	1,400	1,318
Investment in subsidiary companies	11	12,785	5,019
Investment in associate	12	-	5,003
Total non-current assets		14,185	11,340
Current assets			
Trade and other receivables	15	23,612	9,735
Cash and cash equivalents	16	9,160	1,714
Total current assets		32,772	11,449
Total Assets		46,957	22,789
Current liabilities			
Trade and other payables	17	(663)	(364)
Total Current Liabilities		(663)	(364)
Total liabilities		(663)	(364)
Net Assets		46,294	22,425
Shareholders' Equity			
Share capital	20	12,141	11,938
Share premium account		75,799	46,939
Share Based Payment Reserve		1,590	1,172
Accumulated losses		(43,236)	(37,624)
Total shareholders' equity		46,294	22,425

These financial statements were approved by the Board of Directors on 14 March 2019 and are signed on its behalf by:

Stephen Sanderson
Director

Kiran Morzaria
Director

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

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 SEPTEMBER 2018**

	Share capital £'000	Share premium £'000	Share based payment reserve £'000	Accumulated losses £'000	Total £'000	Non Controlling Interests £'000	Total £'000
Balance at 1 October 2016	11,842	39,644	1,224	(35,141)	17,569	-	17,569
Loss for the year	-	-	-	(2,268)	(2,268)	-	(2,268)
Total comprehensive income				(2,268)	(2,268)	-	(2,268)
Issue of shares	96	7,631	-	-	7,727	-	7,727
Cost of share issue	-	(336)	-	-	(336)	-	(336)
Share option exercised	-	-	(316)	316	-	-	-
Share option expired	-	-	(210)	210	-	-	-
Share based payments	-	-	474	-	474	-	474
Total transactions with owners	96	7,295	(52)	526	7,865	-	7,865
Balance at 30 September 2017	11,938	46,939	1,172	(36,883)	23,166	-	23,166
Loss for the year	-	-	-	(16,747)	(16,747)	-	(16,747)
Total comprehensive income				(16,747)	(16,747)	-	(16,747)
Issue of shares	203	29,627	-	-	29,830	-	29,830
Cost of share issue	-	(767)	-	-	(767)	-	(767)
Share option exercised	-	-	(105)	105	-	-	-
Share option expired	-	-	(132)	132	-	-	-
Share based payments	-	-	655	-	655	-	655
Total transactions with owners	203	28,860	418	237	29,718	-	29,718
Non Controlling Interest on acquisition of subsidiary	-	-	-	-	-	651	651
Balance at 30 September 2018	12,141	75,799	1,590	(53,393)	36,137	651	36,788

**COMPANY STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 SEPTEMBER 2018**

	Share capital £'000	Share premium £'000	Share based payment reserve £'000	Accumulated losses £'000	Total £'000
Balance at 1 October 2016	11,842	39,644	1,224	(36,080)	16,630
Loss for the year	-	-	-	(2,070)	(2,070)
Total comprehensive income	-	-	-	(2,070)	(2,070)
Issue of shares	96	7,631	-	-	7,727
Cost of share issue	-	(336)	-	-	(336)
Share option exercised	-	-	(316)	316	-
Share option expired	-	-	(210)	210	-
Share based payments	-	-	474	-	474
Total transactions with owners	96	7,295	(52)	526	7,865
Balance at 30 September 2017	11,938	46,939	1,172	(37,624)	22,425
Loss for the year	-	-	-	(5,849)	(5,849)
Total comprehensive income	-	-	-	(5,849)	(5,849)
Issue of shares	203	29,627	-	-	29,830
Cost of share issue	-	(767)	-	-	(767)
Share option exercised	-	-	(105)	105	-
Share option expired	-	-	(132)	132	-
Share based payments	-	-	655	-	655
Total transactions with owners	203	28,860	418	237	29,718
Balance at 30 September 2018	12,141	75,799	1,590	(43,236)	46,294

**CONSOLIDATED STATEMENT OF CASH FLOW
FOR THE YEAR ENDED 30 SEPTEMBER 2018**

	2018	2017
	£'000	£'000
Cash flows from operating activities		
Loss from operations	(3,759)	(2,395)
Depletion & impairment	285	74
Share based payment charge	655	474
(Increase) in inventories	(1)	(1)
(Increase) / decrease in trade & other receivables	(1,702)	(897)
Increase / (decrease) in trade & other payables	(2,901)	3,134
Net cash (outflow) / inflow from operating activities	(7,423)	389
Cash flows from investing activities		
Expenditures on exploration & evaluation assets	(5,237)	(8,723)
Expenditures on oil & gas properties	(36)	(2)
Expenditures on plant, property & equipment	(139)	-
Payments for acquisition of associate	-	(55)
Net cash acquired on acquisition of subsidiary	1,885	-
Proceeds from sale of Available for Sale Financial Assets	-	572
Net cash (outflow) from investing activities	(3,527)	(8,208)
Cash flows from financing activities		
Proceeds from issue of share capital	12,906	7,459
Share issue costs	(767)	(336)
Proceeds from convertible loan financing	10,000	-
Convertible loan financing fees	(510)	-
Net cash inflow from financing activities	21,629	7,123
Net change in cash and cash equivalents	10,679	(696)
Cash and cash equivalents at beginning of the period	1,748	2,444
Cash and cash equivalents at end of the period	12,427	1,748

**COMPANY STATEMENT OF CASH FLOW
FOR THE YEAR ENDED 30 SEPTEMBER 2018**

	2018 £'000	2017 £'000
Cash flows from operating activities		
(Loss) from operations	(3,694)	(2,197)
Share based payment charge	655	474
Decrease in trade & other receivables	27	128
Increase in trade & other payables	299	65
Net cash (outflow) from operating activities	(2,713)	(1,530)
Cash flows from investing activities		
Expenditures on exploration & evaluation assets	(517)	(576)
Loan advanced to subsidiary	(9,738)	(6,191)
Payments for acquisition of associate	-	(55)
Payments on acquisition of subsidiary	(1,215)	-
Proceeds from sale of Available for Sale Financial Instrument	-	572
Net cash (outflow) from investing activities	(11,470)	(6,250)
Cash flows from financing activities		
Proceeds from issue of share capital	12,906	7,459
Share issue costs	(767)	(336)
Proceeds from convertible loan financing	10,000	-
Convertible loan financing fees	(510)	-
Net cash inflow from financing activities	21,629	7,123
Net change in cash and cash equivalents	7,446	(657)
Cash and cash equivalents at beginning of the period	1,714	2,371
Cash and cash equivalents at end of the period	9,160	1,714

NOTES TO THE FINANCIAL STATEMENTS

1. Principal Accounting Policies

Basis of Preparation

UK Oil & Gas PLC is a company incorporated in the United Kingdom. The Company's shares are listed on the AIM market of the London Stock Exchange. On 31 July 2018, the Company changed its name from UK Oil & Gas Investments PLC to UK Oil & Gas PLC by way of a statutory notice of change filed at Companies House

The Consolidated Financial Statements are for the year ended 30 September 2018 and have been prepared under the historical cost convention and in accordance with International Financial Reporting Standards as adopted by the EU ("adopted IFRS"). These Consolidated Financial Statements (the "Financial Statements") have been prepared and approved by the Directors on 14 March 2019 and signed on their behalf by Stephen Sanderson and Kiran Morzaria.

The accounting policies have been applied consistently throughout the preparation of these Financial Statements, and the financial report is presented in Pound Sterling (£) and all values are rounded to the nearest thousand pounds (£'000) unless otherwise stated.

New standards, amendments and interpretations adopted by the Company

No new and/or revised Standards and Interpretations have been required to be adopted, and/or are applicable in the current year by/to the Group and/or Company, as standards, amendments and interpretations which are effective for the financial year beginning on 1 October 2017 are not material to the Company.

New standards, amendments and interpretations not yet adopted

At the date of authorisation of these financial statements, the following IFRSs, IASs and Interpretations were in issue but not yet effective. Their adoption is not expected to have a material effect on the financial statements unless otherwise indicated:

- IFRS 9 Financial Instruments (effective date 1 January 2018);
- IFRS 15 Revenue from Contracts with Customers (effective date 1 January 2018);
- IFRS 16 Leases (effective date 1 January 2019);
- IFRS 17 Insurance Contracts (effective date 1 January 2021).

Principles of consolidation and equity accounting

(i) Subsidiaries

Subsidiaries are all entities (including structured entities) over which the group has control. The group controls an entity when the group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the group. They are deconsolidated from the date that control ceases.

The acquisition method of accounting is used to account for business combinations by the group.

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the group. Non-controlling interests in the results and equity of subsidiaries are shown separately in the consolidated statement of profit or loss, statement of comprehensive income, statement of changes in equity and balance sheet respectively.

(ii) Associates

Associates are all entities over which the group has significant influence but not control or joint control. This is generally the case where the group holds between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting (see (iii) below), after initially being recognised at cost.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(iii) Equity method

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

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

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

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

(iv) Business combinations

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

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

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

Acquisition-related costs are expensed as incurred.

The excess of the:

- consideration transferred,
- amount of any non-controlling interest in the acquired entity, and
- acquisition-date fair value of any previous equity interest in the acquired entity over the fair value of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the business acquired, the difference is recognised directly in profit or loss as a bargain purchase.

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

Contingent consideration is classified either as equity or a financial liability. Amounts classified as a financial liability are subsequently remeasured to fair value with changes in fair value recognised in profit or loss.

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Revenue

Revenue is measured by reference to the fair value of consideration received or receivable by the Group for services provided, excluding VAT and trade discounts. Revenue is credited to the Income Statement in the period it is deemed to be earned.

Revenue from the sale of oil and petroleum products is recognised when the significant risks and rewards of ownership have been transferred, which is considered to occur when title passes to the customer. This generally occurs when the product is physically transferred into a vessel, pipe or other delivery mechanism.

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

Finance Income and Costs

Finance income and costs are reported on an accruals basis.

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

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

(i) Pre-licence costs

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

(ii) Licence and property acquisition costs

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

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

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

(iii) Exploration and evaluation costs

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Costs directly associated with appraisal activity undertaken to determine the size, characteristics and commercial potential of a reservoir following the

initial discovery of hydrocarbons, including the costs of appraisal wells where hydrocarbons were not found, are initially capitalised as an intangible asset.

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

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

(iv) Development costs

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

Oil and gas properties and other property, plant and equipment

(i) Initial recognition

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

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

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

(ii) Depreciation/amortisation

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

Other property, plant and equipment are generally depreciated on a straight-line basis over their estimated useful lives, which is between 2 and 10 years depending on the type of asset, and major inspection costs are amortised over three to five years, which represents the estimated period before the next planned major inspection. Property, plant and equipment held under finance leases are depreciated over the shorter of lease term and estimated useful life. An item of property, plant and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

(iii) Major maintenance, inspection and repairs

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

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

Provision for rehabilitation / Decommissioning Liability

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

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

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

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

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

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

Taxation

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

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

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

Financial Assets

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

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

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

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

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

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

Financial Liabilities

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Impairment of assets

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

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

Goodwill

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

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

Inventories

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

Cash and Cash Equivalents

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

Share-Based Payments

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

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

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

Equity

Equity comprises the following:

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

Foreign Currencies

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

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

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

Significant accounting judgements, estimates and assumptions

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

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

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

Changes in estimates are accounted for prospectively.

(i) Judgements

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(i.a) Contingencies

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

(i.b) Estimates and assumptions

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

(i.c) Hydrocarbon reserve and resource estimates

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

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

Future development costs are estimated using assumptions as to the number of wells required to produce the commercial reserves, the cost of such wells and associated production facilities, and other capital costs. The current long-term Brent oil price assumption used in the estimation of reserves is US\$70/bbl. The carrying amount of oil and gas development and production assets at 30 September 2018 is shown in Note 9.

The Group estimates and reports hydrocarbon reserves in line with the principles contained in the SPE Petroleum Resources Management Reporting System (PRMS) framework. As the economic assumptions used may change and as additional geological information is obtained during the operation of a field, estimates of recoverable reserves may change. Such changes may impact the Group's reported financial position and results, which include:

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

(i.d) Exploration and evaluation expenditures

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

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

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

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

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

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

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

(i.g) Recoverability of oil and gas assets

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

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

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

(i.h) Decommissioning costs

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

(i.i) Fair value measurement

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

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

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

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

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

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

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

2. Going Concern

The Directors noted the losses that the Group has made for the Year Ended 30 September 2018. The Directors have prepared cash flow forecasts for the period ending 31 March 2020 that take account of the current cost and operational structure of the Group.

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

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

It is the prime responsibility of the Board to ensure the Group remains a going concern. At 30 September 2018 the Company had cash and cash equivalents of £12,427,000 and borrowings of £3,533,000. The Company has minimal contractual expenditure commitments and the Board considers the present funds sufficient to maintain the working capital of the Company for a period of at least 12 months from the date of signing the Annual Report and Financial Statements. For these reasons the Directors adopt the going concern basis in the preparation of the Financial Statements.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

3. Business Combinations

Acquisition of Horse Hill Developments Ltd ("HHDL")

On 25 September 2018 through UK Oil & Gas PLC, the Group announced the completion of the acquisition of a further 22% shareholding interest in HHDL, for a total consideration of £6,600,000, comprising £6,175,000 in the form of 328,858,149 UKOG ordinary shares and £425,000 in cash.

Prior to the completion of the additional interest above, the Group held a 49.9% interest in HHDL, and equity accounted as an associate investment accordingly. The additional interest therefore took the Group to a 71.9% total shareholding interest and accordingly a change in status of the investment in HHDL from an associate to a subsidiary. The resultant business combination has been calculated as below.

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

	Horse Hill Developments Limited Fair Value	Non-controlling interest Adjustments	Total Fair Value
	£'000	£'000	£'000
Intangible Assets: Exploration Costs	13,523	(3,800)	9,723
Trade & other receivables	460	(129)	331
Cash	3,100	(871)	2,229
Current Liabilities	(2,166)	609	(1,557)
Borrowings	(12,601)	3,540	(9,061)
Net identifiable assets acquired at fair value			1,665
Total consideration / acquisition cost			7,955
Goodwill on acquisition			6,290
Total purchase consideration / acquisition cost is made up as follows;			
Cash paid			3,893
Shares issued			8,446
Associate losses accounted for			(672)
Loans novated to UKOG on acquisitions			(3,712)
Total consideration / acquisition cost (see below)			7,955
Total cash flow on the additional acquisition the current year is as follows:			
Cash paid			(425)
Net cash acquired with the subsidiaries			3,100
Net consolidated cash inflow for the year ended 30 September 2018			2,675

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

4. Segment Reporting

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

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

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

4. Segment Reporting (continued)

Group	Oil production & exploration £'000	Oil exploration & evaluation £'000	Corporate & Administrative £'000	Consolidated £'000
Year ended 30 September 2017				
Revenue				
External Customers	207	-	-	207
Total revenue	207	-	-	207
Results				
Depletion & impairment	(74)	-	-	(74)
Share of associates loss	-	(77)	-	(77)
(Loss) before & after taxation	(66)	(209)	(1,993)	(2,268)
Segment assets	2,162	21,193	4,395	27,750
Segment liabilities	(306)	(3,415)	(363)	(4,084)
Other disclosures:				
Investment in associate	-	323	-	323
Capital expenditure (1)	2	8,723	-	8,725

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

5. Operating Loss

Group	2018 £'000	2017 £'000
Operating (loss) is stated after charging:		
– Directors remuneration – fees & salaries	435	428
– Employee Benefit Trust charge	6	5
– Auditors' remuneration		
Audit-related assurance services	42	32
Other compliance services	35	-
Tax compliance	-	-
– Depletion of oil & gas properties	63	74

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

6. Directors and Employees

The Company employed the services of an average of 6 Employees in the year (2017: 5), of which an average of 3 (2017: 3) were executive and non-executive Directors. Remuneration in respect of these employees was:

Group	2018 £'000	2017 £'000	
Employment costs, including Directors, during the year:			
Wages and salaries	496	249	
Social security costs	56	23	
Employee pension costs	2	-	
Consultancy fees	313	393	
Share based payments	309	217	
	<u>1,176</u>	<u>882</u>	
Average number of persons, including executive Directors employed			
	No.	No.	
Administration	4	4	
Operations	2	1	
	<u>6</u>	<u>5</u>	
Directors' remuneration			
	£'000	£'000	
Emoluments	744	645	
	2018 £'000	2017 £'000	
Jason Berry (*)	-	65	
Stephen Sanderson	584	339	
Kiran Morzaria	108	179	
Allen Howard (**)	43	62	
Nicholas Mardon Taylor (***)	9	-	
Total Directors Emoluments	<u>744</u>	<u>645</u>	
	Fees and salaries £'000	Share based payments (****) £'000	Total £'000
2018			
S Sanderson	275	309	584
K Morzaria	108	-	108
A Howard (**)	43	-	43
N Mardon Taylor (***)	9	-	9
	<u>435</u>	<u>309</u>	<u>744</u>
	Fees and salaries £'000	Share based payments (****) £'000	Total £'000
2017			
S Sanderson	240	99	339
K Morzaria	100	79	179
A Howard (**)	23	39	62
J Berry (*)	65	-	65
	<u>428</u>	<u>217</u>	<u>645</u>

* Resigned 16 November 2016, ** Appointed 1 March 2017, ***Appointed 1 August 2018, **** Share based payments are non-cash remuneration by way of the issue of share options in the company. No pension contributions were made on behalf of Directors during the year.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

7. Income Tax

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

	2018 £'000	2018 £'000
Loss for the year before tax	(16,747)	(2,268)
Tax rate	19%	19/20%
Expected tax credit	(3,182)	(442)
Differences between capital allowances and depreciation	-	-
Expenses not deductible for tax purposes	213	107
Future income tax benefit not brought to account	2,969	335
Actual tax expense	-	-

8. Loss per Share

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

Group	2018 £'000	2017 £'000
(Loss) attributable to ordinary shareholders	(16,747)	(2,268)

	Number	Number
Weighted average number of ordinary shares for calculating basic loss per share	4,116,039,727	2,905,392,699

	Pence	Pence
Basic and diluted loss per share	(0.41)	(0.08)

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

9. Intangible assets

	Group			Company	
	Exploration & evaluation costs £'000	Decommissioning Asset £'000	Goodwill £'000	Total £'000	Exploration & evaluation costs £'000
Cost & Net Book Value					
As at 1 October 2016	6,187	-	-	6,187	742
Reclassifications	200	-	-	200	-
Additions	8,723	-	-	8,723	576
As at 30 September 2017	15,110	-	-	15,110	1,318
Acquired through Business Combinations (Note 2)	13,523	-	6,290	19,813	-
Additions	5,793	362	-	6,155	2,016
Exploration Write offs	(11,560)	-	-	(11,560)	(1,205)
Impairment	(222)	-	-	(222)	(729)
As at 30 September 2018	22,644	362	6,290	29,296	1,400

Directors have assessed the fair value of the exploration & evaluation assets as at 30 September 2018 and have concluded the carrying value of the following assets require write off:

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

At this point the Company is still assessing the potential of the remaining assets and will continue to develop and evaluate these assets in the coming year. Since their acquisition dates there has been no further material changes to the Licence areas. The directors therefore consider that no further impairment is required at 30 September 2018, other than detailed above.

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

10. Oil & gas properties

Group	Oil & gas properties 2018 £'000	Property, plant & equipment 2018 £'000	Total 2018 £'000	Oil & gas Properties Total 2017 £'000
Cost				
As at 1 October	1,662	170	1,832	2,030
Reclassifications	-	-	-	(200)
Additions	36	138	174	2
As at 30 September	1,698	308	2,006	1,832
Depletion & impairment				
As at 1 October	(234)	-	(234)	(160)
Depletion charge	(15)	(48)	(63)	(74)
As at 30 September	(249)	(48)	(297)	(234)
Carrying value				
As at 30 September	1,449	260	1,709	1,598

Impairment review

The Directors have carried out an impairment review as at 30 September 2018 and determined that an impairment charge is not currently required in relation to Oil & Gas properties and related property plant & equipment. The Directors based this assessment ongoing production from Horndean and in the case of Avington the operational optimisation that is ongoing to improve operational efficiencies.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

11. Investment in Subsidiaries

Company	2018 £'000	2017 £'000
Cost and net book amount		
At 1 October	5,019	5,019
Additions in the year	7,955	-
Impairment	(189)	-
At 30 September	12,785	5,019

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

The Company holds more than 50 per cent of the share capital of the following companies as at 30 September 2018:

Company	Country of Registration	Proportion held	Functional Currency	Nature of business
UKOG (GB) Limited	UK	100%	GB£	Oil production
UKOG Solent Limited	UK	100%	GB£	Oil exploration
UKOG Weald Limited	UK	100%	GB£	Oil exploration
UKOG (234) Limited – previously "Kimmeridge Oil & Gas Limited"	UK	100%	GB£	Oil exploration
Horse Hill Developments Ltd	UK	71.9%	GB£	Oil exploration
UKOG (KOGL) Ltd – previously "Kimmeridge Energy Limited"	UK	100%	GB£	Dormant
UK Oil & Gas Investments Limited – previously "UK Oil & Gas Limited"	UK	100%	GB£	Dormant

All subsidiary undertakings are included in the consolidation. The proportion of the voting rights in the subsidiary undertaking held directly by the parent company do not differ from the proportion of the ordinary shares held. The following companies are taking an exception from the audit of the financial statements as per S479A of the Companies Act; UKOG (GB) Ltd (04050227), UKOG Solent Ltd (05000092), UKOG Weald Ltd (04991234), UKOG (234) Ltd (07055133), Horse Hill Developments Ltd (08808553).

12. Investment in Associate

Group and Company	2018 £'000	2017 £'000
Carrying Value as at 1 October	5,003	4,757
Net equity additions at cost	3,371	323
Share of associates loss for the year	(419)	(77)
Transferred to investment in subsidiaries	(7,955)	-
Carrying Value as at 30 September	-	5,003

On 25 September 2018, the Company completed the acquisition of a further 22% interest in Horse Hill Developments Ltd ("Horse Hill") for a total consideration of £6,600,000 (cash £425,000 and UKOG share issues £6,175,000) and net loan acquisitions of £3,229,000. This increase resulted in increasing the Company's holding to 71.9% and has thus been reclassified as a subsidiary. See Note 2 – Business Combinations for further details.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

13. Available for Sale Investments

	2018 £'000	2017 £'000
Group & Company		
Investment in unlisted securities		
Valuation at 1 October	-	368
Additions at cost	-	-
Disposals	-	(368)
Valuation at 30 September	-	-

Angus Energy Plc completed a listing on the AIM Market on 14 November 2016. The Company disposed of its entire shareholding in Angus Energy Plc for £572,000 in early 2017 resulting in a gain on disposal of £204,000.

14. Inventory

	2018 £'000	2017 £'000
Group		
Inventories - Crude Oil	5	4
Total	5	4

15. Trade and Other Receivables

	Group		Company	
	2018 £'000	2017 £'000	2018 £'000	2017 £'000
Trade debtors	38	164	13	145
Other debtors	660	1,488	252	418
Loans to related parties (see Note 24)	-	2,117	-	2,117
Loans to subsidiary companies	-	-	23,076	7,055
Prepayments and accrued income	517	16	271	-
Total	1,215	3,785	23,612	9,735

During the year the parent company UKOG wrote-off loans to subsidiary companies, UKOG (Solent) Ltd and UKOG (Weald) Ltd totalling £319,000 as a result of the impairment decisions made by the Directors as noted in Note 8.

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

16. Cash and Cash Equivalents

	Group		Company	
	2018 £'000	2017 £'000	2018 £'000	2017 £'000
Cash at bank and in hand	12,427	1,748	9,160	1,714
Total	12,427	1,748	9,160	1,714

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

17. Trade and Other Payables

	Group		Company	
	2018	2017	2018	2017
	£'000	£'000	£'000	£'000
Current trade and other payables				
Trade creditors	1,699	2,656	226	283
Other creditors	276	-	276	-
Accruals and deferred income	1,015	1,069	161	81
Total	2,990	3,725	663	364

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

18. Borrowings

	Group		Company	
	2018	2017	2018	2017
	£'000	£'000	£'000	£'000
Current trade and other payables				
Loans payable to Non Controlling Interests	3,533	-	-	-
Total	3,533	-	-	-

Loans payable to non-controlling interests are payable on demand with an interest rate of 10% above Bank of England base Rate. The Group acquired these loans as part of the business combination acquisition of HHDL, and represent loans made to HHDL by the other shareholders thereof.

Convertible Loan Financing

In November 2017, the Company entered into a £10 million loan agreement ("Loan") with Cuart Investments PCC Ltd and YA II PN Ltd ("Investors"), an investment consortium arranged by Riverfort Global Capital Ltd. A first tranche of £7,500,000 was drawn down immediately by the Company, with the second tranche of £2,500,000 drawn down in December 2017. The first and second tranches were repayable on 13 November 2019 and 31 December 2019, respectively. The draw downs of the loans attracted total fees of £510,000 in accordance with the terms thereof.

The Loan attracted 0% interest and may, at the sole discretion of the Investors, be converted into new ordinary shares in the Company. The conversion price was the lower of either a share price of 8 pence, or 90% of the Company's lowest daily volume weighted average price ("VWAP") during the five days prior to the conversion date. The Loan was convertible in tranches of not less than £250,000, with a limit of £3,000,000 per quarter, unless otherwise agreed by the Company.

The Loan included a provision that, for as long as any portion of the Loan is outstanding, neither the Investors nor any of their affiliates shall hold any net short position with respect to the equity of UKOG.

UKOG could repay the principal amount of the Loan at any time for cash, provided that the 5-day VWAP of the Company's equity is less than 8 pence and a prepayment fee equal to 10 per cent of the principal amount of the Loan then outstanding was paid by the Company to the Investors.

The full amount of the loan was repaid during the year by way of equity conversions throughout the period from November 2017 to July 2018, in accordance with the terms above. A total of 684,626,188 shares were issued during the period of loan notice conversions. No further liabilities existed at the 30 September 2018.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

19. Provisions - Decommissioning

Group	2018 £'000	2017 £'000
As at 1 October	359	359
Additions	1,059	-
Release	(77)	-
As at 30 September	1,341	359

The amount provided at 30 September 2018 represents the Group's share of decommissioning liabilities in respect of the producing *Horndean and Avington fields*, and the *Broadford Bridge, Horse Hill and Markwells Wood* drilling sites.

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

20. Share Capital

Ordinary Shares	Number of ordinary shares	Nominal Value £	Total Value £'000
Issued at 30 September 2016	2,577,634,099	0.0001	258
On 08 December 16, for options exercised at 0.4p per share	20,000,000	0.0001	2
On 24 May 17, placing for cash at 0.8p per share	812,500,000	0.0001	81
On 16 June 17, for warrants exercised at 0.4p per share	15,000,000	0.0001	1
On 19 July 17, for options/warrants exercised at 0.4p/2.25p per share	55,000,001	0.0001	6
On 28 July 17, for warrants exercised at 0.8p per share	40,625,000	0.0001	4
On 24 August 17, for acquisition at 1.55p per share	17,361,862	0.0001	2
On 04 September 17, for options exercised at 0.4p per share	2,000,000	0.0001	-
Issued at 30 September 2017	3,540,120,962	0.0001	354
For conversion of loan notes (At prices from 4.1p to 0.9p)	684,626,188	0.0001	68
On 08 November 2017, for options exercised at 1.15p per share	8,000,000	0.0001	1
On 08 December 2017, for acquisition at 8p per share	9,382,271	0.0001	1
On 13 April 2018, for options exercised at 0.4p per share	1,000,000	0.0001	-
On 14 June 2018, placing for cash at 0.9p per share	611,111,105	0.0001	62
On 28 June 2018, for options exercised at 1.15p per share	3,000,000	0.0001	-
On 02 July 2018, placing for cash at 2p per share	250,000,000	0.0001	25
On 04 July 2018, placing for cash at 2p per share	100,000,000	0.0001	10
On 13 August 2018, for warrants exercised at 0.9p per share	14,000,000	0.0001	1
On 06 September 2018, for warrants exercised at 0.9p per share	16,555,555	0.0001	2
On 25 September, for acquisition at 1.76p per share	31,171,898	0.0001	3
On 25 September 2018, for acquisition at 1.77p per share	63,644,030	0.0001	6
On 25 September 2018, for acquisition at 1.92p per share	234,042,221	0.0001	24
Issued at 30 September 2018	5,566,654,230	0.0001	557

Deferred shares

The Company has in existence at 30 September 2018 and at 30 September 2017, 1,158,385,229 deferred shares of 0.001p. These deferred shares do not carry voting rights.

Total Ordinary and Deferred Shares

The issued share capital as at 30 September 2018 is as follows:

	Number of shares	Nominal Value £	Total Value £'000
Ordinary shares	5,566,654,230	0.0001	557
Deferred shares	1,158,385,352,229	0.00001	11,584
			<u>12,141</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

20. Share Capital (continued)

Share Options

During the year 52.5 million options were granted (2017: 120 million).

As at 30 September 2018 the options in issue were:

Exercise price	Expiry date	Options in issue 30 September 2018
0.4p	31 December 2019	35,000,000
1.15p	24 May 2022	117,000,000
1.6p	12 April 2023	17,500,000
1.82p	26 September 2019	45,000,000
		214,500,000

12,000,000 options were exercised, and no options were cancelled during the year (2017: 78,500,000 exercised). 35,000,000 options lapsed during the year (2017: 20,000,000).

Warrants

As of 30 September 2018, no warrants were in issue (2017: nil).

30,555,000 warrants were issued during the year (2017: 40,625,000). No warrants lapsed during the year (2017: nil). 30,555,000 warrants were exercised during the year (2017: 54,125,001 exercised).

Employee Benefit Trust

The Company established on 29 September 2014, an employee benefit trust called the UK Oil & Gas Employee Benefit Trust ("EBT") to implement the use of the Company's existing share incentive plan over 10% of the Company's issued share capital from time to time in as efficient a manner as possible for the beneficiaries of that plan. The EBT is a discretionary trust for the benefit of directors, employees and consultants of the Company.

Accordingly, on establishment, the trustees of the EBT subscribed for 129,000,000 new ordinary shares of 0.01p each in the Company, at par value per share at an aggregate cost to the Company of £12,900, such shares representing 9.07% of the existing issued share capital of the Company (at that date). The shares held in the EBT are intended to be used to satisfy future awards made by the Company's Remuneration Committee under the share incentive scheme. During the financial year ending 30 September 2015, 80,000,000 new ordinary shares. million were awarded to employees and consultants, none of whom are related parties. The current balance of the EBT is 49,000,000 new ordinary shares.

No further issue of ordinary shares was made to the EBT during the years ended 30 September 2018 & 30 September 2017.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

21. Share-Based Payments

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

Share options	At 1 October 2017 No. million	Issued during the year No. million	lapsed / exercised during the year No. million	At 30 September 2018 No. million	Exercise price £	Date from which exercisable	Expiry date
Allen Howard	10	-	-	10	0.0115	25/05/2017	24/05/2022
Jason Berry	8	-	(8)	-	0.0115	22/08/2014	22/08/2019
Kiran Morzaria	20	-	-	20	0.0115	25/05/2017	24/05/2022
Stephen Sanderson	25	-	(25)	-	0.0040	21/01/2015	31/12/2017
Stephen Sanderson	35	-	-	35	0.0182	28/09/2016	28/09/2019
Stephen Sanderson	-	25	-	25	0.0040	13/04/2018	31/12/2019
Stephen Sanderson	25	-	-	25	0.0115	25/05/2017	24/05/2022
	123	25	(33)	115			
Consultants	11	-	(11)	-	0.0040	21/01/2015	31/12/2017
Consultants	10	-	-	10	0.0182	28/09/2016	28/09/2019
Consultants	65	-	(3)	62	0.0115	25/05/2017	24/05/2022
Consultants	-	10	-	10	0.0040	13/04/2018	31/12/2019
Consultants & employees	-	17.5	-	17.5	0.0160	13/04/2018	12/04/2023
	209	52.5	(47)	214.5			

The share price range during the year was £0.01125 to £0.07375 (2017 - £0.0103 to £0.0898).

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

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

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

Expected volatility was determined by calculating the historical volatility of the Company's share price for 12 months prior to the date of grant. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

The Company recognised total expenses of £655,000 (2017: £474,000) relating to equity-settled share-based payment transactions during the year, and £237,000 (2017: £526,000) was transferred via equity to retained earnings on the exercising or lapse of options during the year.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

22. Financial Instruments and Risk Analysis

Financial Assets by Category

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

Current assets - Group	2018 £'000	2017 £'000
Inventory	5	4
Trade and other receivables	1,215	3,787
Cash and cash equivalents	12,427	1,748
	13,647	5,539

Financial Liabilities by Category

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

Current liabilities – Group

Trade and other payables	2,990	3,725
Borrowings	3,553	-
	6,523	3,725

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

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

Interest Rate Sensitivity

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

Credit Risk Analysis

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

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

Liquidity risk analysis

All of the Group's liabilities are contractually due within one year.

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

23. Financial Instruments and Risk Analysis (continued)

Capital Management Policies

The group's capital management objectives are to:

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

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

Commodity price risk

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

Commodity price sensitivity

The table below summarises the impact on profit before tax for changes in commodity prices. The analysis is based on the assumption that the crude oil price moves 10% resulting in a change of US\$ 6.68/bbl (2017: US\$ 5.43/bbl), with all other variables held constant. Reasonably possible movements in commodity prices were determined based on a review of the last two years' historical prices and economic forecasters' expectations.

Increase/decrease in crude oil prices	Effect on profit before tax for the year ended 30 September 2018 Increase/(Decrease)	Effect on profit before tax for the year ended 30 September 2017 Increase/(Decrease)
	£'000	£'000
Increase US\$ 6.68/bbl (2017: US\$ 5.43/bbl)	23	25
Decrease US\$ 6.68/bbl (2017: US\$ 5.43/bbl)	(23)	(25)

Currency risk

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

24. Commitments & Contingent Liabilities

As at 30 September 2018, the Group had the following material commitments;

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

There were no contingent liabilities at 30 September 2018.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

25. Events after the Reporting Date

On 21 January 2019, the Company completed its purchase of a 30% interest in the PEDL331 onshore Isle of Wight licence for a total consideration of £350,000. The total consideration was satisfied through the issuance of 17,989,326 new ordinary shares and £90,450 in cash. At the date of signing the annual report, the Company holds an operated 95% direct interest in the Licence.

On 20 February 2019, the Company announced the completion of the purchase of a further 6% interest in Horse Hill Developments Ltd for a consideration of £2,100,000 settled by the issue of 129,629,630 new ordinary shares. The Group's total shareholding in Horse Hill Developments Ltd after this further acquisition is 77.9%.

26. Related Party Transactions

The company had the following amounts outstanding from its investee companies at 30 September:

	2018 £'000	2017 £'000
Horse Hill Developments Ltd ("Horse Hill")	-	2,117
	-	2,117

The above loans outstanding are included within trade and other receivables, Note 15. The loan to HHDL has been made in accordance with the terms of the investment agreement whereby it accrues interest daily at the Bank of England base rate and is repayable out of future cashflows. As detailed in Note 3, HHDL became a group subsidiary company during the year, and the balance due therefrom is now included within loans to subsidiaries at 30 September 2018.

Transactions with related parties

During the year, consultancy fees of £217,000 (2017 - £189,000) were charged to the Company by Matt Cartwright Consulting Limited, a company of which Mr Matt Cartwright, UKOG's Chief Operating Officer is the sole director. £30,000 was outstanding at the year-end (2017: £38,000).

In addition, consultancy fees of £96,000 (2017 - £204,000) were charged to the Company by BuntBay Limited, a company of which Mr Stephen Sanderson, UKOG's Chief Executive is a director. £nil was outstanding at the year-end (2017: £32,000).

Remuneration of Key Management Personnel

The remuneration of the directors, and other key management personnel of the Company, is set out below in aggregate for each of the categories specified in IAS24 Related Party Disclosures

	2018 £'000	2017 £'000
Short-term employee benefits	496	249
Consultancy fees	313	393
Share-based payments	496	474
	1,305	1,116

27. Ultimate Controlling Party

In the opinion of the directors there is no controlling party.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

28. Profit and loss account of the parent company

As permitted by section 408 of the Companies Act 2006, the profit and loss account of the parent company has not been separately presented in these accounts. The parent company loss for the year was £5,849,000 (2017: loss £2,070,000).

COMPANY INFORMATION

Company registration number	05299925
Registered office	The Broadgate Tower 8th Floor 20 Primrose Street London EC2A 2EW
Directors	Allen Howard Stephen Sanderson Kiran Morzaria Nicholas Mardon Taylor
Secretary	Kiran Morzaria
Auditors	Chapman Davis LLP Chartered Accountants Registered Auditor 2 Chapel Court London, SE1 1HH
Nominated Adviser	WH Ireland Limited 24 Martin Lane London, EC4R 0DR
Solicitors	Hill Dickinson The Broadgate Tower 8th Floor 20 Primrose Street London, EC2A 2EW
Registrars	Share Registrars Limited The Courtyard, 17 West Street Farnham, Surrey, GU9 7DR