IGAS 2018

Annual report and accounts **2018**

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

We talked to key industry stakeholders to better understand why we need gas and how we can work together to secure our future energy needs.

Read the conversations…

A Professor of Global Energy at Warwick Business School

see page 8

The new independent Commissioner for Shale Gas

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Financial Statements

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Financial & Operational Performance

A year of solid delivery from existing operations. On a sound financial footing the business is well positioned to progress the development of its assets and deliver on its work programmes.

Financial

Revenues

£42.9m

2018	£42.9m
2017	£35.8m

Net assets

£161.7m

2018	£161.7m
2017	£181.6m

Net debt

£6.4m

2018	£6.4m
2017	£6.2m

Adjusted EBITDA

£10.8m

2018	£10.8m
2017	£9.2m

(Loss)/profit after tax

£(21.4)m

2018	£(21.4)m
2017	£15.5m

Net cash from operating activities

£12.9m

2018	£12.9m
2017	£6.7m

Cash and cash equivalents

£15.1m

2018	£15.1m
2017	£15.7m

Underlying operating profit

£4.0m

2018	£4.0m
2017	£1.3m

Operational

2,258 boepd

- Group production averaged 2,258 boepd for the year

Reserves

- 2P reserves replacement of over 200% in 2018
- 2P reserves of 14.56 MMboe at 31 December 2018

Albury

- Successful completion of gas-to-grid project currently producing c.750 mscf/d (130 boe)

Shale exploration & appraisal

- Commenced appraisal programme of the Gainsborough Trough basin in the East Midlands
- Significant shale section encountered at Springs Road and promising initial results at Tinker Lane that are encouraging for the potential gas resources in the Gainsborough Trough basin

ROSPA

- Awarded Presidents Award, representing 12 years of commitment to Occupational Health and Safety

To read more on our operations see page 17

Our Strategy & Value Creation Cycle

Reserves and production growth

Developing portfolio of growth opportunities

Local and national engagement

To read more on Corporate Governance see page 34

From **strategy** to **delivery**

Mike McTighe
Non-executive Chairman

2019 will undoubtedly see further shifts in the energy mix. Given coal is being phased out and the future of nuclear is uncertain, how can we ensure security of supply? A reliable source of gas remains key to ensuring Britain continues to operate at full capacity.

"We are committed to ensuring that our teams and talent are diverse as we know the benefits that diverse thinking, perspectives and experiences can bring to our business.

Corporate Governance – adopting a new code

IGas is committed to maintaining high standards of corporate governance.

To read more on Corporate Governance see page 34

Or to read more about the QCA code and how we comply visit www.igasplc.com

Did you know?

8 out of 10 British homes use gas for heating

This has been a year of solid delivery from existing operations. We have completed a number of capital projects, as well as commencing our shale appraisal campaign in North Nottinghamshire.

The business has demonstrated its resilience and following the refinancing in 2017, is on a sound financial footing which is important in these volatile markets, particularly in relation to commodity prices and foreign currency.

Whilst the challenges of operating in a volatile commodity market and navigating the uncertain and lengthy UK planning regime are self-evident, there is material upside in the producing and development assets within the IGas portfolio and significant opportunities lie ahead. We will reinvest capital in our asset base to take advantage of these opportunities.

As a business, we take pride in our operations and strive for positive community engagement. Our Community Fund again distributed resources to support many local projects across our portfolio.

We maintain a company-wide focus on health, safety, and responsible operations. All of our production and drilling operations retained their ISO 14001 and 9001 certifications and we were awarded the ROSPA Presidents Award again, representing 12 years of commitment to Occupational Health and Safety.

The QCA Code

In March 2018, the AIM Rules were changed such that all AIM companies were obliged, from 28 September 2018, to apply a recognised corporate governance code, providing details of that code on its website along with details of how the Company complies with or departs from that code.

I believe that the QCA Code provides the Group with the right governance framework in view of its size, strategy, resources and stage of development, as it offers a flexible but rigorous outcome-oriented framework in which we can continue to develop our governance model to support our business.

As far as IGas is concerned we do not anticipate any direct post-Brexit issues for the business but believe our business becomes more important, if and when we are to leave the EU. The critical questions are, how will the UK continue to meet the national demand for gas and will we still be able to access our energy affordably?

Currently, gas meets 40% of the UK's primary energy requirements. Over 80% of British homes are heated by gas and two thirds of people use it for cooking. Today we import roughly 50% of that gas requirement, and by 2035 that figure is expected to rise to 75%. Imported gas costs us around £18 million a day. According to one National Grid scenario, Britain's import bill could hit £10 billion a year – creating no jobs and generating no tax revenue in this country, but granting these benefits instead to countries including Norway, Qatar and Russia.

Dependency on imports leaves the UK dangerously exposed to shortages and price spikes when there are infrastructure failures or tight international supplies. On 1 March 2018, National Grid issued its first 'gas supply deficit' warning for eight years. A number of large businesses agreed with their suppliers to use less gas, and within-day prices rose to as high as 350 pence per therm – over six times the normal price. This inevitably hits our industrial competitiveness, pushes up costs for our gas-dependent manufacturing industries, and creates risks for business and increased prices for consumers.

As the Netherlands becomes a net gas importer, Norwegian gas will be in high demand and as competition for Norwegian supplies increases, a rising proportion of the UK's gas is likely to come from countries with environmental and human rights standards far lower than our own. Large amounts of energy are required to freeze gas and transport it by ship as LNG, resulting in production and processing emissions being as much as twice those compared with home-grown shale gas production.

People

We are committed to ensuring that our teams and talent are diverse as we know the benefits that diverse thinking, perspectives and experiences can bring to our business.

It has been another busy year across the business and I would like to thank all employees for their ongoing commitment and hard work.

On behalf of the Board, I would like to extend my sincere thanks to John Blaymires, our Chief Operating Officer, who will retire from the business on conclusion of the Springs Road vertical well. John has been an integral part of the IGas story for the last eight years. The Company has benefited greatly from his dedication and commitment, wise counsel and wealth of industry experience. We wish him well in all his future endeavours.

Outlook

We have laid down a solid foundation for our business and we will continue to ensure that our cost base reflects the external economic situation.

We are focused on balancing our investment in our assets with maintaining a sound financial footing in volatile market conditions. Our ongoing work programme across our shale acreage, principally funded by our partners, will give us important data in understanding further the increasingly vital resource beneath our feet.

Mike McTighe
Non-executive Chairman

From **opportunity** to **growth**

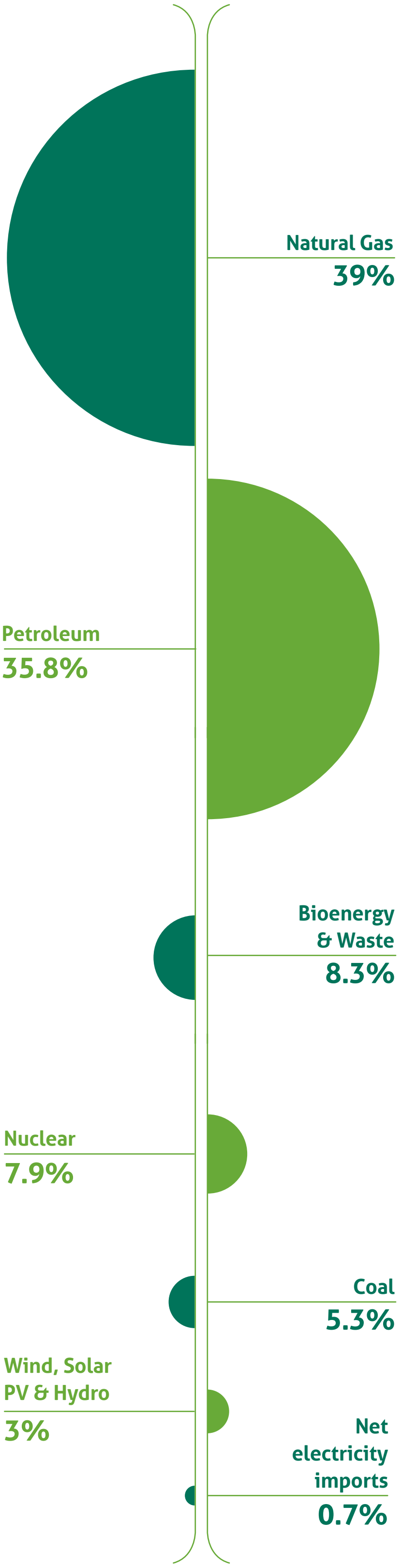
Political and Regulatory Update

On 17 May 2018, the UK Government issued a joint Written Ministerial Statement (WMS) from the Energy and Local Government Secretaries reiterating its support and commitment to our industry by stating shale gas development is of national importance. The statement itself constitutes a material consideration in local planning decisions.

As laid out in the WMS, on 19 July 2018, the Government launched two consultations: one that will consider allowing exploration wells to be drilled under permitted development (i.e. without the requirement of a planning application); and another on the inclusion of shale production projects into the Nationally Significant Infrastructure Projects regime. We responded to these consultations ahead of the 25 October 2018 deadline.

There has been considerable misunderstanding publicly in respect of the consultation on permitted development. It does not extend to hydraulic fracturing, it is specifically for exploratory wells. The main concern of both the industry and local communities, is the fact that planning applications for even the simplest of wells now take up to 18 months to conclude and that many of the professional planning officer recommendations are ignored. This leaves communities with uncertainty and local taxpayers potentially with a huge bill to foot, and is against the experience of the previous ten years where most applications were decided in less than four months and against a statutory timescale of three months.

Primary energy demand 2017[1]



UK Energy

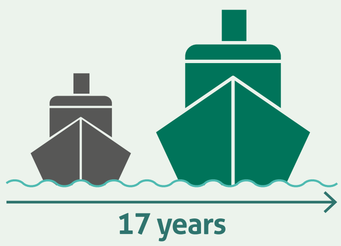
The most recent statistics published from 2017 show that oil and gas provided 75% of the UK's primary energy

72%

of the population think that the UK is becoming too dependent on energy from other countries according to the latest BEIS perception study[2]

50%

c.50% of our gas is imported currently – set to rise to 75% in the next 17 years



68bcm

UK's projected annual gas demand of 68bcm in 2030

1 Source: https://www.gov.uk/government/statistics/energy-chapter-1-digest-of-united-kingdom-energy-statistics-dukes.
2 Source: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/702640/Wave_25_Summary_Report.pdf

Did you know?

Electricity makes up just **17.5%** of energy consumption in the UK

The main fuels used by final consumers in 2017 were petroleum products (47.8%), natural gas (28.6%) and electricity (17.5%)

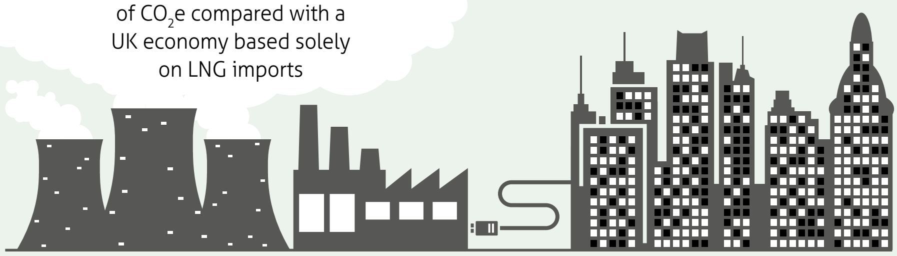
48%

29%

18%

117m

Production from shale gas wells drilled over the next 20 years could save 117 million tonnes of CO_2e compared with a UK economy based solely on LNG imports



Oil & Gas prices in 2018

$62/bbl

Oil price in December 2018

67p/therm

Gas price in December 2018

The planning system is just one of five separate regulatory processes that the industry has to satisfy. The other regulatory regimes are operated by the Environment Agency (EA), The Health and Safety Executive (HSE), The Oil and Gas Authority (OGA) and The Department for Business, Energy and Industrial Strategy (BEIS). We also have to seek permission from other bodies such as the Coal Authority. None of this changes under permitted development and so we will still need to receive environmental permitting consent, have our wells checked by an independent well examiner and reviewed by the Health and Safety Executive as well as receiving well consent from the Oil and Gas Authority.

A third consultation opened in October 2018 on whether or not there should be a requirement for pre-application consultation with local people before we formally submit plans for any shale application. Our view is that there is already a significant amount of community engagement that takes place by both the industry and regulators and consideration of, and improvements to, existing consultation practices through our Industry Charter would be preferable to all than a prescriptive 'tick box' exercise.

On 5 October 2018, BEIS announced former labour MP, Natascha Engel as the new independent Commissioner for Shale Gas. In recognising the need to provide communities with impartial, fact-based information the Commissioner will act as a direct communication link between local communities, the shale gas industry and the industry regulators. The commissioner will be a contact point for residents, to listen to their concerns, refer them to relevant and factual research and help improve communication with regulators and industry.

At the same time, BEIS also announced the instigation of a Shale Environmental Regulator Group (SERG), which will bring the regulators (OGA, HSE and EA) together as a virtual body. The SERG will act as one, coherent, single face for local authorities and industry, helping to resolve regulatory issues on sites and sharing best practice with local authorities considering shale gas applications.

From **potential** to **value**

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

To read more on our operations see page 17

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

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

Significant value creation opportunities across the business

	Related risk factors
Reserves and production growth	4. Oil or gas production 7. Oil market price risk
Developing portfolio of growth opportunities	3. Planning, environmental, licensing and other permitting risks 5. Shale gas resources
Local and national engagement	1. Exposure to political risk 3. Planning, environmental, licensing and other permitting risks

To read more on our risks see pages 26 to 29

Our resources & relationships

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

To read more see page 30

Our People
We constantly strive to develop our employees and their knowledge and skills.

To read more see page 33

Continuous assessment

Risks and uncertainties
We constantly assess the risks facing our business and develop mitigation strategies.

To read more see page 26-29

Key performance indicators
The success of our operations is measured against KPIs.

To read more see page 24

Investment Case

The value we create not only creates returns for our shareholders, but also for our other stakeholders.

C

Reserves

2P conventional reserves replacement of 200% as at 31 December 2018

S

Significant shale resources

Shale prospective resources of 2.5tcf (440 MMboe)

C

High leverage to oil price

Existing infrastructure with near term upside

C S

Dual targets

Number of existing producing fields where shale potential underlays producing horizon

S

Significant carried work programme

Up to c.$220m with INEOS as at 31 December 2018

C

Primary recovery only

Upside identified through water injection and infill drilling

C S

Operating Capability

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

c.100 producing wells

Majority of fields 100% owned and operated

S

Existing infrastructure

Benefits shale development

C

Financially sound

Refinanced and generating free cash flow

Maintaining competitive advantage

- Disciplined asset portfolio management
- Optimisation of assets
- Integrated management tools and financial management
- Operating capability

Key

C Conventional Assets

S Shale Assets

The future **need** for natural gas in the UK

In conversation with Michael Bradshaw, Professor of Global Energy, Warwick Business School

In 2018 the growing challenges surrounding the future role of natural gas became clear.

By the end of the previous year total gas demand was down 23 per cent since its peak in 2000, and at the same time, domestic production was down 63 percent on the 2000 level, and it continued to decline during 2018. Nonetheless, with domestic production falling faster than demand, import dependency continues to rise. The latest figures from the OGA[1], using the BEIS reference scenario for demand[2], suggest that total import dependency could rise from around 50 percent today to 54 percent by 2025 and 66 percent by 2030. Of course, this situation could change if there was significant growth in onshore natural gas production.

Today, the majority of the UK's natural gas consumption is split between three sectors: electricity generation, domestic heating and cooking and industrial uses, where it is both a source of heat and a raw material. Data from BEIS for 2017 show that power stations consumed 28.9% of total gas supply, the domestic sector 30%, and industry 19.2%[3]. Around 84% of households rely on natural gas for heating and in 2017 it also provided 40.4% of the UK's electricity. So why the falling demand? There are at least three reasons: first, the growth of renewable electricity power generation (wind and solar) that have priority in the 'merit order;' second, improvements in energy efficiency; and third, a declining role for energy-intensive industry in the UK.

Natural Gas in the UK

As the Climate Change Committee's 2018 Progress Report[4] makes clear, the decarbonisation of the energy system is the primary reason why by the end of 2017 the UK's total greenhouse gas emissions had fallen by 43% compared to 1990. In fact, some 75% of emission reductions since 2012 have come from the power sector. Switching from coal to gas has played a major role in this success story, but with coal power gone by 2025, natural gas will be the most carbon-intensive fuel in the UK's energy mix. With the current goal of reducing greenhouse gas emissions by 80% of 1990 levels by 2050, and the possibility of net-zero emissions by 2050, there are growing uncertainties about the future role of natural gas in the low carbon energy mix.

There is no doubt that the so-called 'dash for gas' in the 1990s created a gas industry in the UK that has delivered secure and affordable energy for consumers. But challenges have emerged since the turn of the century as the underlying infrastructure has started to age. The most obvious example being the closure of the Rough Gas Storage facility, the UK's only significant source of inter-seasonal storage. Declining production from the UK sector of the North Sea has been compensated for by growing Norwegian imports, the development of three LNG import terminals and two interconnector pipelines that link to Belgium and the Netherlands. At the same time, the National Transmission System (NTS), owned and operated by National Grid, has had to adapt to moving gas from different sources and directions from its original task of simply moving gas from the north to the south. All of this has made for an increasingly complex domestic gas market that must be balanced on a daily basis.

Challenges in 2018

As noted at the onset, 2018 presented a number of challenges that have highlighted growing uncertainty over the UK's future gas security. First, the so-called 'Beast from the East', a relatively short-lived spell of very cold weather at the end of February 2018, resulted in unusually high levels of gas demand and the cold temperatures themselves caused a number of technical failures. This led National Grid to announce a 'Gas Deficit Warning,' a signal to the industry that more gas is needed in the NTS to maintain the system. As a result, the price spiked and the gas flowed, as the Government later claimed 'the market worked.' However, the resulting post-mortem made clear that the situation could have been much more serious had the 'cold snap' been more prolonged and that the presence of coal-fired power and the fact that it was windy meant that it was possible to reduce the amount of gas being used in the electricity system.

Imagine, a prolonged cold snap at the end of the winter period after 2025, when LNG stocks would normally be low, with no wind and no coal and the situation could quickly become difficult. Also factor in that such weather systems tend to cover the whole of northwest Europe and that once we leave the EU, we may not be part of the single gas market; then we are also left to fend for ourselves. This line of reasoning has prompted calls for the Government to support the construction of more inter-seasonal storage, something it has so far refused to do, saying that it is for the market to decide.

The summer heat wave, both in the UK and in Asia, brought other challenges. The hot weather in the UK brought with it a 'wind drought' and although solar power thrived, more gas was used to generate electricity. At the same time, strong demand for LNG in Asia meant that relatively little came to the UK, which is traditionally when we fill our tanks for the winter. This strong demand also had the effect of pushing up the price of LNG, helped also by the recovery in oil prices, which together meant that with high gas prices in the autumn coal made a modest return in the power generation mix. However, over the year renewable generation[6] accounted for a record 49.6% of total power generation. By the end of the year, soft demand in Asia saw LNG returning to the UK at much higher levels then previous years.

Outlook for the future

The problem now facing the UK's gas industry is that new investment is needed to maintain the capacity and resilience of the system and also increase its flexibility in the face of growing renewable electricity; but there is growing uncertainty over just how much gas will be needed in the future. The Government's Industrial strategy[6] sees two possible energy decarbonisation pathways ahead: an electricity pathway that relies on low carbon electricity generation and storage; and a hydrogen pathway using natural gas and the availability of carbon capture usage and storage (CCUS) to produce hydrogen distributed by the existing gas distribution network. Both pathways face uncertainty, the first because the Government's plans for new nuclear are in disarray, and the second, because CCUS is not yet commercially available. While continued gas demand in the 2020s seems fairly secure, there is no certainty over what will happen in the 2030s and beyond. Like the energy industry more generally, the gas industry makes significant investments that often take decades to pay back. The growing 'energy transition risk' makes it difficult to make long-term commitments and a clear vision is now required about the future need for gas in the UK.

2018 presented a number of challenges that have highlighted growing uncertainty over the UK's future gas security.

1 Source: https://www.ogauthority.co.uk/media/5073/projections-of-uk-oil-and-gas-production-and-expenditure-september-2018.pdf.
2 Source: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/671187/Updated_energy_and_emissions_projections_2017.pdf.
3 Source: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/729395/Ch4.pdf.
4 Source: https://www.theccc.org.uk/publication/reducing-uk-emissions-2018-progress-report-to-parliament/.
5 Source: https://warwick.ac.uk/fac/soc/impact/gassecurity/.
6 Source: https://www.gov.uk/government/news/uk-energy-statistics-2018-provisional-data.
7 https://www.gov.uk/government/organisations/department-for-business-energy-and-industrial-strategy.

From **residents** to **regulators**

In conversation with the new Independent Commissioner for Shale Gas, Natascha Engel

The UK shale gas industry is still in its infancy. All the same, its potential to secure our energy supply and regenerate some of our most deprived communities means that it could be a real game-changer.

To realise this potential, local residents who are being asked to host shale gas operators need to be more involved, better informed and listened to – and to do this, the Government recently established the role of Commissioner for Shale Gas to provide a link and liaison point between local residents, the shale gas industry, the Regulators and Government.

The enormous potential benefits that the industry could bring have been completely lacking from any discussion about shale gas.

A new role for new opportunities

Whilst independent of Government, the role supports shale gas exploration as long as it is done safely and sensitively. Because of our long history of oil and gas extraction, we are lucky in the UK to have some of the strongest and tightest regulations in the world.

Most importantly, the role recognised that often the voices of people who lived in the communities most directly affected by planning applications for shale gas were often missing from a debate dominated by highly-organised and well-funded campaigns against fracking.

It is these local residents and businesses that I have been meeting with since my appointment and hearing their frustration about the lack of rational debate and the difficulty in accessing factual information about fracking.

This is the greatest frustration in the debate: the enormous potential benefits that the industry could bring have been completely lacking from any discussion about shale gas.

How the industry can help communities

Lancashire, Cheshire, North Nottinghamshire, Derbyshire and Yorkshire boast some of the UK's most beautiful countryside and tourism destinations. They are, though, also some of our unemployment hotspots where youth joblessness is endemic with young people moving away in large numbers or remaining with few or no opportunities at home.

For those people who care about meeting our decarbonisation targets, domestically-sourced shale gas can help here too: in the US where the shale gas revolution has made America an energy super-power, switching from coal to gas has seen a reduction in carbon emissions of over 10% in the last decade.

Shale gas is the bridge

In Germany, nuclear energy is being abandoned while everything is thrown into wind. This means relying on lignite (coal) as a back-up. It's no surprise that their greenhouse gas emissions are rising. It demonstrates again that gas is the only realistic bridge to a more renewable energy future.

This is why a calm, rational, science-led national debate on shale gas is essential – and post-Brexit, we simply can't afford not to have the debate. As our North Sea reserves deplete, the prospect of a plentiful, reliable, secure domestic energy supply is something too important to ignore.

Outlook for the future

Shale gas exploration is still only at the prospecting phase. We need this year, more than ever, to find out what the size of the resource is that we have beneath our feet and how easily we can get at it.

2019 is hopefully when the UK shale gas story will start in earnest.

From **exploration** to **restoration**

Tinker Lane & Springs Road

Before and during any operation we are subject to rigorous health and safety, environmental and planning permission processes and regulations.

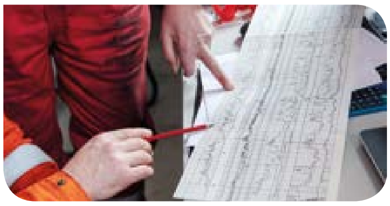
BEIS/OGA

The OGA is the body responsible for licensing and regulating the exploration and development of the UK's oil and gas resources.

Representatives from both bodies visited both Springs Road and Tinker Lane sites before and during drilling operations.

Department for Business, Energy & Industrial Strategy

Oil & Gas Authority



Health and Safety Executive (HSE)

The HSE monitors oil and gas operations from a well integrity and site safety perspective. It ensures that safe working practices are adopted by onshore operators.

The HSE audited the well design and operational programme in advance of drilling both the Tinker Lane and Springs Road wells. They attended both sites on a number of occasions.

HSE

How do we ensure site safety and regulatory compliance?

The Company's HSE Policy establishes the overall principles that underpin IGas' approach to Health Safety and Environment. IGas's HSE Policy is supported by the HSE Standards.

Compliance with safety and environmental standards starts with in house training, for IGas personnel and during the procurement process for service providers. Adherence to safety and environmental standards is embedded within both working and contractual relationships. Prior to mobilisation to our development sites, service providers undergo audits and training to bed in IGas's safety and environmental standards. Before working on site each individual visitor completes a training course informing them of the IGas Site Safety Rules as well as the Regulatory and Planning Conditions that the site works within.

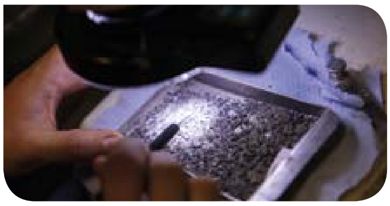
Toolbox talks are held daily and at the start of each new body of work. These meetings focus on the methods by which the work can be completed safely and in an environmentally sound manner.

Every person in the business is empowered to report hazards. These are logged centrally and closed out promptly by the site manager who takes forward learnings into improved site wide and companywide practises.

Local communities

Environment Agency (EA)
The EA is the environmental regulator. Onshore oil and gas exploratory activities require environmental permits which are issued by the EA.

During the drilling of the Tinker Lane well, the Environment Agency conducted two regulatory inspections as well as other orientation visits. The purpose of the inspections was to ensure compliance with the site's environmental permits. The regulatory visits found that the environmental permits were complied with in all material aspects.



Mineral Planning Authority (MPA)
The MPA grants planning permission for the location of any wells and well pads, and impose conditions to ensure that the impact on the use of the land is acceptable.

The relevant MPA for Tinker Lane, Nottinghamshire County Council, conducted seven regulatory inspections during operations on site. These inspections were to ensure compliance with the 52 planning conditions that were attached to the planning consent. An area of particular focus was IGas' adherence to an agreed routing to and from the site by Heavy Good Vehicles (HGVs). Since commencing operations in the East Midlands in November 2017 over 2,600 HGV movements to and from the site occurred. Seven of these HGV movements (c.0.09% of all movements) were not in compliance with the agreed routing. Overall during site operations, we were in total compliance with all other planning conditions.

How we engage and respond

The commencement of the construction stage of our Tinker Lane operation saw an increase in our local community engagement. Over the year, this took many forms including Community Liaison Group (CLG) meetings, site visits and leaflet drops.

The Tinker Lane CLG, established in January 2016, met seven times in 2018 with the group hosting several guest speakers. These guests included: representatives from IGas' drilling team, who gave a detailed presentation on what the local community could expect to see and hear over the drilling period; the police, who explained and discussed the police presence at the site entrance, and; regular visits from both Nottinghamshire County Council, the EA and the HSE who all provided the group with information relating to their areas of expertise.

IGas also hosted several group visits to site both during construction and drilling. These groups included both the Tinker Lane and Springs Road CLGs, representatives from local resident groups, the media and local politicians and councillors.

In addition, and to coincide with the commencement of the drilling programme, IGas staff hand delivered 1,500 leaflets to several villages around the site including Blyth, Barnby Moor, Ranskill, Torworth and Sutton cum Lound. This allowed us to have several conversations with locals and not only answer any questions about the operation but also allay many concerns that people had.

Further details on all our projects can be found at www.igas-engage.co.uk

From **consolidation** to **future foundations**

2018 was a year of delivery, completing a number of projects as well as taking further steps to improve our operating and production efficiencies. We are generating free cash flow and took proactive steps to invest into our producing and development assets.

Stephen Bowler
Chief Executive Officer

The increase in the oil price helped to boost cash flows from our producing assets, enabling us to invest in a number of sanctioned projects and advance our development 'hopper' by accelerating third party field development studies preparing for execution in 2019 and beyond.

Operational Performance

Group production averaged 2,258 boepd for the year. Production for the first five months of the year was ahead of budget but was impacted by the shut-in of a water injection well at our Stockbridge field in August 2018. The injection well was brought back online and we are considering additional options for increasing water disposal capacity to uplift production. We successfully completed the Albury gas-to-grid project with full production start-up and gas export to the grid at the end of November 2018. We continue to progress the Welton water injection project building upon the success of the pilot results.

Read more about our marketplace
see page 4

In 2018, we have undertaken a systematic review of our production portfolio, including identifying optimisation opportunities to enhance production and reserves. To aid this exercise we have carried out a series of field studies. These scoping studies have highlighted a number of opportunities with the most promising opportunities requiring a more detailed engineering evaluation and assessment before they are financial investment decision (FID) ready. We will continue to advance these over the next 12 months.

Following these studies, we commissioned an independent Competent Persons Report (CPR) by DeGolyer & MacNaughton (D&M) of our reserves and resources. There has been a significant 2P reserves replacement of over 200% in 2018 based on cumulative production of 0.82 MMboe in the year.

We began our shale appraisal campaign of the Gainsborough Trough basin in North Nottinghamshire, in the fourth quarter of 2018. It is an integrated exploration and appraisal programme to better define the basin consisting of the margin sited well at Tinker Lane and a basin centred well at Springs Road.

We spudded the Tinker Lane well on 27 November 2018 and reached total depth (TD) on 17 December 2018, significantly ahead of schedule. Whilst we did not encounter the Bowland Shale, the preliminary tests on shale samples from within the Millstone Grit Group are encouraging for the potential gas resources in the Gainsborough Trough basin. The analysis of these samples is still subject to further testing and validation. The results of this well will help calibrate our geological models of the region and importantly has demonstrated further improvements in drilling performance, which will be an important component of commerciality.

Did you know?

Today we import roughly **50%** of our gas, and by 2035 that figure rises to nearly **75%**

We believe that it is right to utilise our domestic gas resources to the maximum extent and exploring further the potential for onshore gas production from shale rock formations in the UK, where it is economically efficient, and where environmental impacts are robustly regulated.

Our values

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

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

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

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

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

The well has now been plugged and abandoned and preparations are being made to fully restore the site.

We mobilised the equipment to Springs Road in early January 2019 and spudded the well on 22 January 2019. In mid-February, we encountered shales on prognosis, at c.2,200 metres depth and drilled through a hydrocarbon bearing shale sequence of over 250 metres, including the upper and lower Bowland Shale. TD has been reached on 22 March 2019 at 3,500 metres after encountering all three targets – Bowland Shale, Millstone Grit and Arundian shales.

Significant gas indications were observed throughout the shale section and additionally within sands in the Millstone Grit sequence and the Arundian shales. The cores and wireline logs will now undergo a suite of analysis the first results of which should be available in the second quarter of 2019.

In the North West, we were refused planning permission in January 2018 for a simple drill stem test, at our existing Ellesmere Port site, by Cheshire West and Chester Council (CWaCC) contrary to their planning officer's recommendations and despite receiving no objections from any statutory or non-statutory technical consultees.

We made an application to appeal the decision, which was accepted, and a public inquiry took place over a period of 12 days in January, February and March 2019. Following further written submissions from all parties, the Planning Inspector will opine on the representations of the various parties and determine if the planning application should be allowed or refused.

No further activity in the PEDL licences that fall within the CWaCC Planning Committee will be undertaken until the outcome of the Ellesmere Port appeal is known.

UK Onshore Shale Development
On 24 July 2018, Cuadrilla received final hydraulic fracture consent from BEIS for its first horizontal shale gas exploration well at its Preston New Road site in Lancashire.

They commenced their hydraulic fracture programme on 13 October 2018 and announced first gas on 2 November 2018. They have repeatedly seen natural gas flowing back to surface along with the water injected during the fracturing process and this flow of gas was earlier than expected. Whilst there have been undoubted challenges and restrictions in operating within what is acknowledged to be a very conservative micro-seismic traffic red light threshold (set at just 0.5 on the Richter Scale), this early gas flow is a hugely encouraging signal of the potential locked up in this natural gas resource.

Following two successful appeals, INEOS has permission for two exploration wells in Derbyshire and South Yorkshire, as part of their appraisal programme.

IGas in the Community

We have a responsibility to work in partnership with the communities in which we operate and we aspire to be a good neighbour by respecting the people and communities we impact and being sensitive to their needs.

To be successful, we need to work with communities and build respectful, long-term relationships. By doing so we better understand local concerns and how we can work together to minimise disruption to peoples' lives, and where we make mistakes: learning from these will help us to constantly improve our engagement approach.

The IGas Community Fund is now in its eleventh year and continues to help make a positive difference to community and voluntary organisations. Read more about projects that have benefited from the IGas Community Fund on p30-31.

People

In February 2019, we announced that John Blaymires, Chief Operating Officer, will retire from the Company on the completion of the Springs Road vertical well.

John has been a core member of the senior team at IGas for the last eight years and has helped to build the operational capacity we have today. We are all grateful for his valued contribution in that time and wish him well in his retirement. John's day-to-day responsibilities have been taken on by Ross Glover, Development Director, Chris Beard, Production Director and Ross Pearson, Technical Director who all joined the Executive Committee in February 2019. They bring highly complementary skills to the Executive as we move towards a very exciting period for the business in 2019 and beyond.

Outlook

2018 was undeniably a significant year for shale exploration in the UK with the commencement of hydraulic fracturing at Preston New Road in Lancashire alongside the commencement of our appraisal programme in the Gainsborough Trough. We believe that, safely and responsibly produced, shale gas can be an important future resource for the UK. With over 80% of UK households using gas for heating, c.40% of electricity generation and industry using it to make vital products, it is not a case of whether we need to use gas but where we should source it from.

We strive to employ and develop a strong and motivated workforce, develop local supply chains and work closely with our local communities to ensure they share in the benefits our industry can deliver.

We are highly encouraged by the initial results of our exploration programme in the Gainsborough Trough basin and look forward to completing the interpretation of the complete data suite from the wells at both Tinker Lane and Springs Road. This will help refine our work programme in the East Midlands for the rest of the year.

Across our existing assets in the East Midlands and the Weald Basin, we are advancing projects and taking them through FEED studies.

Whilst challenges in some areas of onshore planning remain, we are confident in our ability to progress the development of our assets. Significant opportunity exists within our portfolio but in order to carefully manage our cash, we will be prudent in bringing forward projects that have attractive returns at current commodity prices.

Stephen Bowler
Chief Executive Officer

From **operation** to **efficiency**

Continued emphasis on identifying opportunities to enhance production and reduce operating expenditure has resulted in a pipeline of maturing future investment projects and a 2P reserves replacement of over 200% in 2018.

In addition to successfully bringing the Albury gas project on-stream, the Production business was largely focused on maintenance and integrity activities on our facilities and pipelines. The Shale Development group advanced the Tinker Lane and Springs Road well projects with encouraging results in terms of performance and preliminary gas indications.

Production

Average net production for the year was 2,258 boepd following the execution of the conventional capital expenditure programme; production gains were achieved through well optimisation and increased production efficiency across multiple fields. These production levels were attained despite the impact of reduced water disposal capacity at the Stockbridge field that prevented the reinstatement of a further c.100 boepd. As ever, all of the teams have worked hard across the portfolio.

The aim of the Stockbridge production recovery programme was to debottleneck the water management constraints at the field to create additional production capacity, whilst also returning existing wells to production. On the whole, the five well project program was executed in line with budget and schedule, with successful results arising from the intervention work on four wells and the effective drilling of the STK19 side-track well. However, the sidetrack failed to provide the additional water injection capacity we had anticipated which meant the full benefit of the project could not be realised and c.100 boepd remains shut-in. Measures are being pursued to unlock this additional potential and alleviate the water handling constraints.

Our advancement of the Welton water injection scheme continued during 2018 with the completion of an additional injection well plus enhanced injection capacity. Early indications, such as well performance and pressure response, are in line with prognosis leading to the approval of the next stage of the development early in 2019. A number of studies have been conducted to look at the broader issue of water management in the East Midland fields and how production and recovery could be optimised whilst lowering opex costs across the portfolio. Similar capacity constraints regarding water disposal as to those existing in the Weald also exist in the East Midlands and we have embarked upon an investment programme to address this to ensure that oil production and ultimately recovery are improved.

At Albury, the power generation element of the development was accelerated allowing electricity export to commence in July 2018, four months ahead of schedule. At the end of November 2018, in line with the project schedule the 'Gas-to-Grid' scheme came online following the completion of the gas treatment, network entry and network pipeline enabling full capacity export to occur. The site now has a combined export capability of over 170 boepd.

During the year we continued to invest in our core assets which included routine maintenance and integrity activities on our facilities and pipelines, site facility upgrades and further extension of the digital oilfield programme.

Over the last 12 months, we have undertaken a systematic review of our production portfolio, both fields and the associated infrastructure, in order to ascertain any performance or capacity issues and how these might be mitigated. We have also focused on identifying optimisation opportunities to enhance production and reserves and reduce operating expenditure. A series of field studies have highlighted a number of opportunities the most promising of which are being advanced through detailed engineering evaluation and assessment before they are fully FID ready.

We will continue to advance these over the next 6-12 months to ensure we have a robust suite of attractive investment opportunities underpinning the business. The success of the Albury development has corroborated our views on some of the other stranded gas opportunities within our portfolio and we are now putting increased focus into their advancement in 2019 and beyond.

In May 2018, we announced the potential sale of certain non-core assets to Onshore Petroleum Limited (OPL). We believe the OGA will not give their consent to the proposed transaction and are therefore in the process of exploring alternative options with OPL and the OGA as to the structure and form of a transaction.

IGas Net Reserves and Resources

IGas' reserves and resources were determined through an independent reserve assessment conducted by D&M as part of a CPR.

Net Reserves and Resources (MMboe)

	1P	2P	2C[3]
As at 31 Dec 2017[1]	8.11	13.64	22.21
As at 31 Dec 2018[2]	9.78	14.56	19.20

Proved (1P) and probable (2P) developed reserves are estimated reserves that geological and engineering data demonstrate with reasonable certainty to be recoverable in future years under existing economic and operating conditions. As these are mature fields, their historical performances have reliable declines in producing-rate trends and the developed reserves have been estimated by the application of appropriate decline curve analysis with a cut-off defined as the limits of economic production. The developed, producing 2P reserves account for over 90% of the total 2P reserves.

Probable (2P) undeveloped reserves were estimated for a number of incremental projects by using analogy type-well data of nearby wells completed in the same reservoirs. These incremental projects are actively being matured and have been determined to be more likely than not to be economically recoverable with some planned further capital investment.

There has been significant 2P reserves replacement ratio of over 200% in 2018 based on a cumulative production of 0.82 MMboe in 2018. The reserves growth is due largely to a continued focus on optimising reservoir management, a combination of planned future investments in non-producing and undeveloped reserves and movement of contingent resources to reserves through actual and planned capital investment.

The D&M independent evaluation also included an estimate of 2C net contingent conventional resources of 19.2 MMboe for IGas properties, using a conversion factor of 5.8 Mcf/boe for gas resources. These resources include conventional oil and gas resources within producing and undeveloped fields that can be readily developed once the particular contingencies are removed, should they be commercial or

Digital Transformation

Back in 2014, the IGas Information Systems team were asked how we could use technology to better manage our operations, improve efficiencies and manage information thus allowing us to improve business processes, provide standardisation and ensure quality of information across all areas of the business. This was the beginning of our journey of embracing Digital Transformation to provide the ability to monitor, manage and optimise the business more effectively.

The initiative commenced with the deployment of three key enterprise wide technologies to underpin these objectives. We focused initially on establishing an effective Information Management system by developing workflows, streamlining business processes and providing a metadata driven information management system.

Key to enhanced business and asset performance was the development of an in-house supervisory control and data acquisition system, Ignition. This facilitates real time monitoring and management of some 70% of our assets to optimise production and to minimise downtime. We will continue to develop this further both for our remaining producing assets but also in anticipation of the shale development progress.

The third element was the adoption of a Geographic Information System (GIS) technology across the business. This provides location based information and management and will be made available across the Company through a common network. A GIS based system combined with the Information System provides a powerful way of integrating and accessing all relevant data locally and quickly.

The investment in an enterprise-wide approach has enabled us to deliver improvements across the business from HR, finance, maintenance management, production monitoring and reporting and managing all our regulatory obligations. Utilising existing people and resources we have delivered these platforms at a significantly lower cost than buying them 'off the shelf' or employing external consultants.

70%

of our assets have digital monitoring capabilities

1 IGas reported reserve and resource estimates published in 2017 Annual report production in 2018 of 0.82 MMboe.
2 D&M estimates as of 31 December 2018 from the CPR, production in 2018 of 0.82 MMboe.
3 2C decrease due largely to successful capital projects in 2018 moving the resources into reserves.

Did you know?

The food and beverages sector was the **second biggest industrial consumer** of natural gas in 2017

otherwise. The decrease in resources during the year is largely due to relinquishment of a non-producing asset and maturing capital projects that were advanced in 2018 moving the relevant resources into the reserve category.

The prospective resource associated with shale exploration/appraisal is not included in this assessment.

Development/Appraisal Assets

During 2018 good progress was made in developing our shale acreage.

In the East Midlands, we continued with the exploration of the Gainsborough Trough area.

Construction of the Tinker Lane site and drilling of the stratigraphic well was completed in 2018. The purpose of the well was to delineate the edge of the shale in the Gainsborough Trough basin and fulfil a licence obligation. Whilst the target Bowland Shale was not present in the well, the indications of hydrocarbons encountered within the Millstone Grit Group of shales are encouraging for the potential gas resources throughout the Gainsborough Trough basin. The well has helped to better calibrate the seismic interpretation and define the margin of the basin. The well has now been plugged and abandoned and plans are being drawn up to fully restore the site to its former condition. It is anticipated that this will be carried out in mid-2019.

Site construction and the drilling of the well was carried out successfully, under stringent environmental and planning conditions. The site hosted multiple visits by the various industry regulators at different stages of the operation. Throughout the operation there were no material breaches of any of the conditions. The site has been subject to significant environmental monitoring over the past two years, with data on noise, ground water and ground gas being regularly collected and analysed. The analysis of this data demonstrates that the site has had no significant environmental impact during its existence and no environmental effects will remain once the site has been restored.

Site construction at our Springs Road site was completed in 2018. Drilling of the first of two wells at the site commenced in 2019. The purpose of the first well is to core and log various intervals in the centre of the Gainsborough Trough basin. As with Tinker Lane, the site is subject to stringent environmental and planning conditions. Site construction was carried out with no material breaches of any of the conditions.

As with Tinker Lane, the Springs Road drilling performance has been very encouraging with improved rates of penetration leading to better than anticipated drilling performance and lower costs. The learnings from these initial wells will be incorporated into subsequent activity and demonstrate that such efficiencies will result in reduced time and cost of future wells with all the attendant benefits.

We reached TD at 3,500 metres after encountering all three targets – Bowland Shale, Millstone Grit and Arundian shales. We encountered a hydrocarbon bearing shale sequence of over 250 metres, including the upper and lower Bowland Shale. Significant gas indications were observed throughout the shale section and additionally within sands in the Millstone Grit sequence. A video showing some recovered core from the well effervescing gas when immersed in water can be viewed here: https://youtu.be/dnZDrTLWiyQ .

We have now completed this phase of data acquisition which included the recovery of approximately 150m of shale core and an extensive wireline logging program across the Millstone Grit, and Upper and Lower Bowland Shale. Petrophysical and core analysis is currently being conducted, which will give us further insight into the resource potential and shale characterisation that will be utilised for future appraisal and development of the wider East Midlands area.

Having encountered both primary and secondary targets on prognosis we continue to drill into the tertiary target, to prove up the potential for multiple hydrocarbon bearing horizons within the Gainsborough Trough. The rate of drilling at both Tinker Lane and Springs Road (down to the primary target) were quicker than anticipated, with corresponding cost savings. This is highly encouraging for future cost efficiencies.

The Tinker Lane and Springs Road results will form the foundation of a pilot development in the East Midlands which looks to leverage the advantage our existing infrastructure and unique UK onshore operational capability offers. The first phase of our development indicates significant potential within the region to expand our existing operations around a pilot shale development that could see sustained production over the long-term. Based on average gas consumption rates, this would supply the needs of hundreds of thousands of UK homes for many years. The development would yield significant benefit for the local economy in the way of highly skilled, highly paid jobs.

Our commitment to the local area would ensure the associated environmental impacts are minimised to the lowest possible level by way of investment in supporting infrastructure with innovative solutions. The UK's long established, world class regulatory framework and our commitment to sustainable development ensures this exciting opportunity will bring a renewed focus and prosperity to many areas in the UK.

In the North West, we appealed against the decision by CWaCC to refuse our planning application to carry out tests on the Pentre Chert Formation in our existing well at Ellesmere Port. The appeal was heard by way of a planning inquiry which began in January 2019. The Planning Inspector's decision to allow or to refuse the appeal is expected in the second quarter of 2019.

The shale operations have the benefit of an extensive injunction that protects three sites, Springs Road, Tinker Lane and Ellesmere Port and access along the public highway to both Springs Road and Tinker Lane. The injunction was obtained in the second half of 2018 and has resulted in significantly fewer obstructive actions.

Following the refinancing in 2017, 2018 has been a year in which the foundations for future growth, in both the production and shale business, has been established. All the teams are clearly committed to advancing our activities safely, environmentally responsibly and cost effectively.

From **investment** to **cashflow**

Julian Tedder
Chief Financial Officer

We are generating free cash flow at current oil prices and will look to selectively reinvest capital into our portfolio of assets to deliver returns to all stakeholders.

Oil prices remained volatile in 2018 with the price of Brent crude increasing from c.$66/bbl at the beginning of the year to a high of $86/bbl in October 2018 before falling to a low of $50/bbl in December 2018. Average oil price for 2018 was $71/bbl (2017: $54/bbl) which had a positive impact on our revenues.

The average GBP/USD exchange rate for the year was £1: $1.34 (2017: £1: $1.29) which negatively impacted revenue for the year.

For the year ended 31 December 2018 adjusted EBITDA was £10.8 million (2017: £9.2 million) whilst a loss was recognised from continuing activities after tax of £21.4 million (2017: profit £15.9 million). The main factors driving the movements between the years were as follows:

- Revenues increased to £42.9 million (2017: £35.8 million) principally due to higher oil prices, partially offset by a 4% decrease in volumes and a stronger average sterling to US dollar exchange rate;
- Other costs of sales increased to £21.9 million (2017: £21.4 million) mainly due to higher production and transportation costs partially offset by lower water handling costs and third party purchases. The higher costs also include operating costs for the Albury gas field which commenced production in November 2018;
- Administrative expenses decreased by £0.9 million to £5.5 million (2017: £6.4 million). Costs were lower in 2018 than in 2017 principally due to a higher capitalisation of costs from increased capital activity and a greater recovery of costs from our joint venture partners;

- The £29.1 million exploration expense includes the write-off of costs relating to PEDL 145 (Doe Green) where a long-term test has concluded that there is not the potential for a commercial development, an Albury well not being used in the current development and various licence relinquishments (2017: £0.1 million related to relinquished licences); and
- A tax credit of £3.7 million was recognised mainly due to the recognition of a deferred tax asset relating to ring-fence tax losses (2017: a tax credit of £19.1 million mainly due to the recognition of a deferred tax asset relating to ring-fence tax losses).

Income statement

The Group recognised revenues of £42.9 million for the year (2017: £35.8 million). Group production for the year averaged 2,258 boepd (2017: 2,335 boepd). Revenues included £2.4 million (2017: £3.0 million) relating to the sale of third party oil, the bulk of which is processed through our gathering centre at Holybourne in the Weald Basin.

The average pre-hedge realised price for the year was $67.0/bbl (2017: $51.0/bbl) and post-hedge $57.4/bbl (2017: $51.3/bbl). A £5.5 million loss was realised on hedges during the year (2017: realised loss of £0.2 million). The average GBP/USD exchange rate for the year was £1: $1.34 (2017: £1: $1.29) which negatively impacted revenue for the year.

Cost of sales for the year were £28.8 million (2017: £29.3 million) including depreciation, depletion and amortisation (DD&A) of £6.8 million (2017: £7.8 million), and operating costs of £21.9 million (2017: £21.4 million). Operating costs include a cost of £2.3 million (2017: £2.8 million) relating to third party oil. The contribution received from processing this third party oil was £0.2 million (2017: £0.2 million).

Operating costs per barrel of oil equivalent (boe) were £23.6 ($31.9), excluding third party costs (2017: £21.9 ($28.2) per boe). Operating costs per boe were higher in 2018 due to higher production and transportation costs and lower volumes.

Adjusted EBITDA in the year was £10.8 million (2017: £9.2 million). Gross profit for the year was £14.2 million (2017: £6.5 million). Administrative costs decreased by £0.9 million to £5.5 million (2017: £6.4 million) principally due to a higher capitalisation of costs from increased capital activity and a greater recovery of costs from our joint venture partners.

Exploration costs written-off of £29.1 million exploration expense includes the write-off of costs relating to PEDL 145 (Doe Green) where a long-term test relating has concluded that there is not the potential for a commercial development, an Albury well not being used in the current development and various licence relinquishments (2017: £0.1 million);

Other costs/income were £nil (2017: £0.2 million income).

Net finance costs were £3.9 million (2017: £6.2 million) primarily related to interest on borrowings of £1.9 million (2017: £5.4 million) which was lower following the capital restructure in April 2017, and a net foreign exchange loss of £0.8 million, principally on US$ denominated debt and bank balances (2017: gain £0.2 million). The Group realised a net gain on restructuring of £4.9 million in 2017.

The Group made a loss on oil price derivatives of £0.7 million for the year due to the increase in underlying prices (2017: loss £2.1 million) and a loss on foreign exchange hedges of £0.2 million (2017: £nil).

Cash flow

Net cash generated from operating activities for the year was £12.9 million (2017: £6.7 million). The increase was primarily due to higher revenue and a decrease in administrative expenses offset by higher counter party payments in respect of realised hedges.

The Group invested £10.6 million across its asset base during the year (2017: £6.3 million). £8.1 million was invested in our conventional assets including the successful completion of the Albury gas-to-grid project, the Welton water injection project including the completion of an additional water injection well, a sidetrack at our Stockbridge site and investments at other sites in order to upgrade our site facilities, extend our digital oilfield programme and maintain our production at current levels. We invested £2.5 million in unconventional assets in relation to our shale development programme including the Ellesmere Port appeal. Expenditure on our Tinker Lane well was funded by a carry from our joint venture partner and did not result in a net cash outflow by IGas in 2018.

IGas repaid £1.7 million ($2.3 million) of principal on borrowings to bondholders during the year in accordance with the terms of the bonds. (2017: repaid £3.6 million ($4.6 million) and purchased bonds with a face value of £1.8 million ($2.2 million). In 2017, IGas also carried out a capital restructuring resulting in a cash inflow of £46.8 million from the issue of shares and cash outflows of £39.3 million and £4.3 million, respectively, from the repayment of secured bonds and payment of fees). IGas paid £1.8 million ($2.3 million) in interest (2017: £5.9 million ($7.3 million)).

To protect against the volatile oil price the Group places commodity hedges for a period of up to twelve months. The Group currently has 525,000 barrels hedged for 2019 with an average put price of $58.5/bbl with an average premium cost of $2.50/bbl.

Cash and cash equivalents were £15.1 million at the end of the year (2017: £15.7 million).

Balance sheet

Net assets were £161.7 million at 31 December 2018 (2017: £181.6 million) with the decrease of £19.9 million arising primarily from the loss for the year.

Intangible exploration and evaluation assets decreased by £25.8 million primarily as a result of amounts written-off of £29.1 million, offset by additions during the year of £3.6 million.

At 31 December 2018, the Group has a combined carried gross work programme of up to $220 million (£170 million)) (2017: $240 million (£179 million)) from its partner, INEOS Upstream Limited. In 2018 £9.2 million (2017: £3.0 million) gross costs were carried, principally in relation to activities at Tinker Lane and Springs Road, which have not been included in the additions to intangible exploration and evaluation assets during the year.

Borrowings decreased from £21.2 million to £21.0 million with repayments being offset by an increase due to the impact of a higher USD/GBP foreign exchange rate.

At 31 December 2018, the Group's derivative instruments had a net positive fair value of £2.2 million due to a decrease in the underlying Brent forward curve (2017: net negative fair value of £2.8 million).

Other provisions decreased by £4.2 million to £37.9 million. The overall decrease of £4.2 million in the decommissioning provision was principally due to a transfer to liabilities held for sale of £9.9 million offset by an increase of £4.7 million due to a reassessment of future decommissioning liabilities following an independent study.

Net debt at the year end, being the nominal value of borrowings less cash and cash equivalents, was £6.4 million (2017: £6.2 million).

Disposal of Non-core Fields

In May 2018, we announced the potential sale of certain non-core assets to Onshore Petroleum Limited (OPL). We believe the OGA will not give their consent to the proposed transaction and are therefore in the process of exploring alternative options with OPL and the OGA as to the structure and form of a transaction.

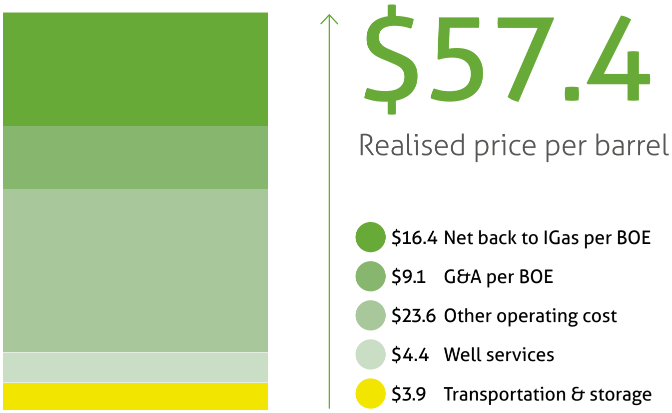
Going Concern

The Group continues to closely monitor and manage its liquidity risks including the continued use of both oil and interest rate derivatives. Cash forecasts for the Group are regularly produced based on, inter alia, the Group's production and expenditure forecasts, management's best estimate of future oil prices, management's best estimate of foreign exchange rates and the Group's borrowings. Sensitivities are run to reflect different scenarios including, but not limited to, possible further reductions in commodity prices, strengthening of sterling and reductions in forecast oil and gas production rates. The Group's base case working capital forecasts show that the Group will have sufficient financial headroom for the 12 months from the date of approval of the financial statements.
To manage the impact of the most extreme downside scenarios modelled, management would have to take action, including delaying capital expenditure in order to remain within the Company's banking facilities. All such mitigating actions are within management's control.

Therefore, after making appropriate enquiries and considering the risks described above, the Directors have a reasonable expectation that the Group has adequate resources to continue in existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in the preparation of the financial statements.

Julian Tedder
Chief Financial Officer

Realised price per barrel



Key financial statistics

	Year ended 31 December 2018 (£m)	Year ended 31 December 2017 (£m)
Revenues	**42.9**	35.8
Adjusted EBITDA[1]	**10.8**	9.2
Underlying operating profit[1]	**4.0**	1.3
Gain/(loss) after tax	**(21.4)**	15.5
Net cash from operating activities	**12.9**	6.7
Net debt[2]	**6.4**	6.2
Cash and cash equivalents	**15.1**	15.7
Net assets	**161.7**	181.6

Adjusted EBITDA and underlying operating profit[1]

Adjusted EBITDA[1]	2018 £m	2017 £m
Loss before tax	**(25.1)**	(3.3)
Net finance costs	**3.8**	6.2
Depletion, depreciation & amortisation	**6.9**	7.9
Impairments/write-offs	**29.1**	0.1
EBITDA	**14.7**	**10.9**
Share based payment charges	**0.8**	1.1
Redundancy costs	**–**	0.2
Gain on capital restructuring	**–**	(4.9)
Unrealised (gain)/loss on hedges	**(4.7)**	1.9
Adjusted EBITDA	**10.8**	**9.2**

Net debt

	31 December 2018 £m	31 December 2017 £m
Debt (nominal value excluding capitalised expenses)	**(21.5)**	(21.9)
Cash and cash equivalents	**15.1**	15.7
Net debt	**(6.4)**	**(6.2)**

Underlying operating profit[1]	2018 £m	2017 £m
Operating loss	**(21.2)**	(2.0)
Share-based payment charge	**0.8**	1.1
Redundancy costs	**–**	0.2
Impairments/write-offs	**29.1**	0.1
Unrealised loss on hedges	**(4.7)**	1.9
Underlying operating profit	**4.0**	**1.3**

1 Adjusted EBITDA and Underlying Operating Profit are considered by the Company to be a useful additional measure to help understand underlying performance.
2 Net debt is borrowings less cash and cash equivalents excluding capitalised fees.

From **performance** to **monitoring**

Non-Financial

Lost Time Injuries (number)

1

2018[1]	1
2017[1]	2
2016[1]	0
2015[2]	0
2014/15[3]	1

Progress on Five Year Shale Development plan

2018[1]	Completed site construction at both Tinker Lane and Springs Road; drilled a vertical well at Tinker Lane and plugged and abandoned the well following completion of drilling; and appealed the decision for flow tests at Ellesmere Port following rejection of the application by CWaCC
2017[1]	Granted planning permission for a vertical well in PEDL 200 (Tinker Lane); planning conditions discharged and site construction commenced for both Springs Road and Tinker Lane; submitted planning application for flow tests at existing Ellesmere Port well; and submitted a scoping request for drilling and hydraulically fracturing a well at Ince Marshes in the NW
2016[1]	Granted planning consent for 2 wells (horizontal and vertical) in PEDL 139/140 (Springs Road); submitted planning application for drilling in PEDL 200 (Tinker Lane); received five new shale licences in the 14th round; and completed interpretation of 3-D seismic in the NW
2015[2]	Acquired 3-D seismic in the NW; submitted planning application for drilling in PEDL 139/140 (Springs Road); 14th Round licence applications; and secured INEOS farm-in
2014/15[3]	Drilled Ellesmere Port-1; and issued five year shale development plan

Reason for choice

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

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

How we calculate

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

How we measure

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

Target and results for 2018

The target was to have zero LTI's and this was not achieved in the year. We had one LTI which was thoroughly investigated and meetings were held across the organisation to ensure the lessons were learned from the investigations. We have again maintained our ISO 9001 and 14001 accreditation with no major non-conformances identified and successfully transitioned to the new standards in September 2018.

The target for the year was to drill two wells in the East Midlands having received planning permissions and commenced site constructions in 2017. Unfortunately discharging planning conditions took longer than anticipated and we were only able to drill the Tinker Lane well in 2018, with the Springs Road well commencing drilling in January 2019. The planning application for a well test at Ellesmere Port was refused at the planning committee meeting on 25 January 2018. We appealed this decision and the Planning Inspector is hearing the appeal in early 2019.

Remuneration link

This measure is used to determine the level of annual cash bonus.

This measure is used to determine the level of annual cash bonus.

Link to strategy

A reminder of our strategy

Reserves and production growth

Developing shale portfolio

Local and national engagement

Financial

Production (boepd)

2,258 boe/d

2018[1]	2,258 boe/d
2017[1]	2,335 boe/d
2016[1]	2,355 boe/d
2015[2]	2,570 boe/d
2014/15[3]	2,737 boe/d

Operating costs ($/boe)

$31.9/boe

2018[1]	$31.9/boe
2017[1]	$28.5/boe
2016[1]	$28.8/boe
2015[2,4]	$24.6/boe
2014/15[3]	$34.6/boe

Operating cash flow (£'000)

£12.9m

2018[1]	£12.9m
2017[1]	£6.7m
2016[1]	£12.4m
2015[1]	£1.0m
2014/15[2]	£26.5m

Reason for choice

Production: The Group aims to maintain production levels to provide operating cashflow for funding of the Group. To ensure this target is met an appropriate level of capital investment is planned to mitigate against the underlying decline in our mature fields.

Operating costs: Operating costs per boe is a key focus for the Group as keeping costs low will improve the cash that we generate from our producing assets.

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

How we measure

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

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

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

Target and results for 2018

Production: Production for 2018 was 2,258 boe/d which was marginally below the target of 2,300 boe/d. Production gains were achieved through well optimisation and increased production efficiency across multiple fields but the principal reason for the shortfall was the impact of reduced water disposal capacity at the Stockbridge field that prevented the reinstatement of a further c.100 boepd.

Operating costs: Operating costs for 2018 were $31.9/boe which achieved the target set for the year. Absolute operating costs were below budget for the year but when combined with the lower production rate and the continuing weak sterling against the US dollar, the target per barrel rate was achieved.

Operating cash flow: Operating cash flow for 2018 was £12.9m which achieved the target set for the year. An increase in oil price during the year improved operating cash flow but this was offset by below budget production in the second half of the year.

Remuneration link

Production: This measure is used to determine the level of annual cash bonus.

Operating costs: This measure is used to determine the level of annual cash bonus.

Operating cash flow: This measure is not used to determine the level of annual cash bonus.

Link to strategy

[1] Year ended 31 December.
[2] Nine months ended 31 December 2015.
[3] Year ended 31 March.
[4] 2015 operating costs included a one-off rates rebate equivalent to $5.5/boe, so underlying operating costs for 2015 were £30.1/boe.

From **identification** to **management**

The Group constantly monitors the Group's risk exposures and reports to the Audit Committee and the Board on a regular basis.

The Audit Committee receives and reviews these reports and focuses on ensuring that the effective systems of internal financial and non-financial controls including the management of risk are maintained. The results of this work are reported to the Board which in turn performs its own review and assessment on an annual basis.

Key Risk Areas

The risks around our existing business are set out in more detail on pages 28 and 29 but the key risk areas can be identified as being associated with the following:

Strategic

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

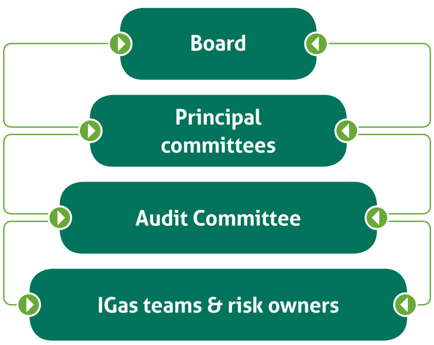
Operational

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

Financial

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

Risk management framework



Board

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

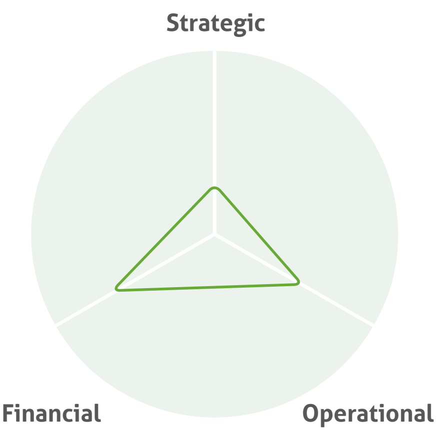
Audit Committee

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

IGas teams & risk owners

The risks are separated into strategic, operational and financial categories. Senior management are assigned responsibility for the identified risks within the three categories (see risk management process below).

Risk matrix



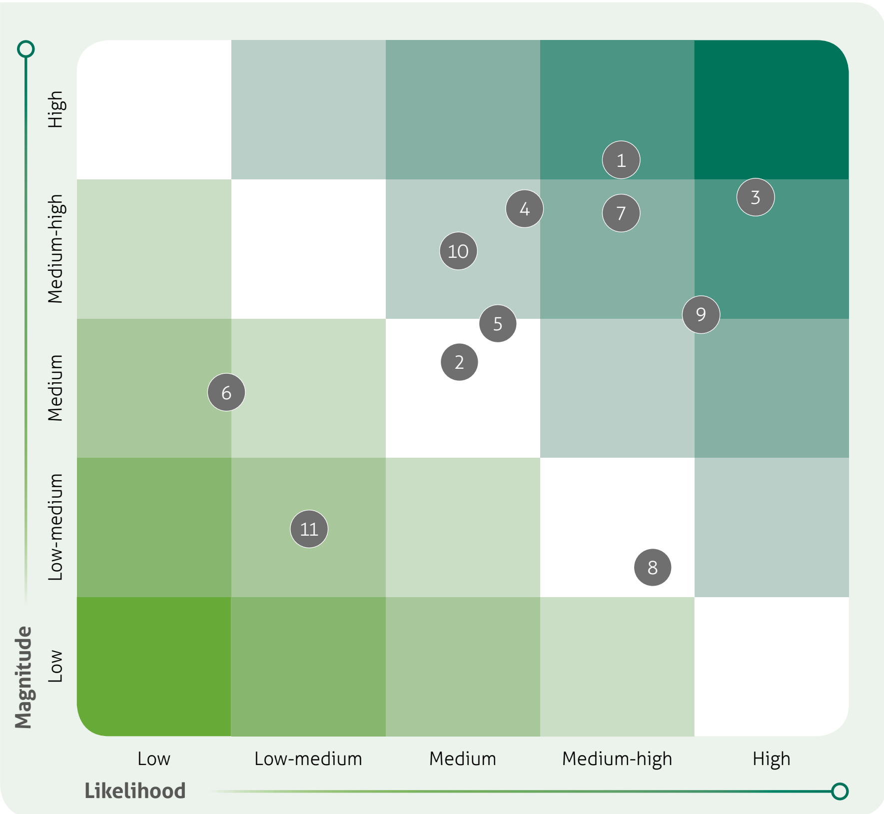
Key

△ Risk spread

Risk management process

The risk management process utilises risk registers held within the production and development business and these are consolidated at a corporate level. Key risks in these registers have assigned owners and are renewed as part of the quarterly business performance reviews. The risk owners believe that the risks are monitored, mitigated and appropriate controls are implemented. The Audit Committee has delegated authority to the Excom to manage the risks.

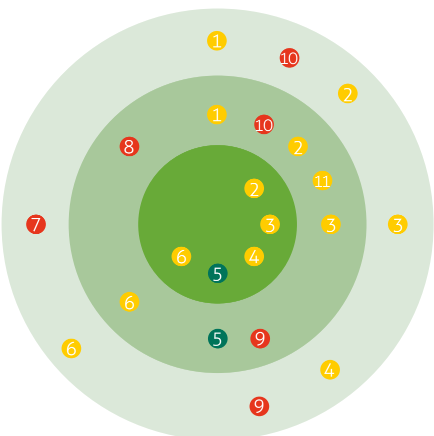
Risk Scale



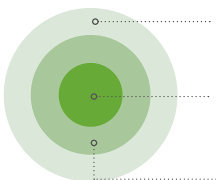
Risks

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

Mapping risks against strategy



Key



Change in risk

- Increased risk
- Stable risk / No change
- Decreased risk

Risk	Executive ownership	Mitigation	Change	Strategic link
Strategic				
1. Exposure to political risk This can include changes in Government or the effect of a local or national referendum. These political risks can result in changes in the regulatory or fiscal environment (including taxation) which could affect the Group's ability to deliver its strategy.	CEO – Stephen Bowler	Through UKOOG and other industry associations the Group engages with Government and other appropriate organisations to ensure the Group is kept abreast of expected potential changes and takes an active role in making appropriate representations.		
2. Strategy performance Strategy fails to meet shareholder expectations.	CEO – Stephen Bowler	Provide clear, transparent and consistent communication to all stakeholders. Ensure delivery against the five year plan. Regular meetings with shareholders and potential shareholders.		
Operational				
3. Planning, environmental, licensing and other permitting risks Planning, environmental, licensing and other permitting risks associated with operations and, in particular, with drilling and production operations.	CEO – Stephen Bowler	The Group considers that such risks are partially mitigated through compliance with regulations, proactive engagement with regulators, communities and the expertise and experience of its team. Continual dialogue with local authorities to understand requirements.		
4. Oil or gas production Oil or gas is not produced in the anticipated quantities from any or all of the Group's assets or that oil or gas cannot be delivered economically.	Production Director – Chris Beard	The Group considers that such risks are mitigated given that its producing assets are located in established oil and gas producing areas, there is a portfolio of producing assets and its operating staff have extensive expertise and experience.		
5. Shale gas resources Successful development of shale gas resources is not achieved.	Development Director – Ross Glover	Investment in further data acquisition, drill wells to get core and log data and deliver successful flow tests. Work with our Joint Venture partners to identify prospective drilling opportunities.		
6. Loss of key staff Loss of key staff.	CEO – Stephen Bowler	Provide and maintain a competitive remuneration package to attract the correct calibre of staff. Build a strong and unified team and ensure we have a clearly defined people strategy based on culture and talent. Development plans in place for all staff.		

Direction of change

- Increase
- No change
- Decrease

A reminder of our strategy

- Reserves and production growth
- Developing shale portfolio
- Local and national engagement

Risk	Executive ownership	Mitigation	Change	Strategic link
Financial				
7. Oil market price risk Exposure to market price risk through variations in the wholesale price of oil in the context of the production from oil fields it owns and operates.	CFO – Julian Tedder	The Group has hedged a total of 525,000 barrels over the year to 31 December 2019, through a mixture of puts and zero cost collars. The Board seeks to underpin the Group's future cash flows by entering into a combination of put and call options for baseline production to cover 12 months forward. The Board will continue to monitor the benefits of such hedging.		
8. Gas and electricity market price risk Exposure to market price risk through variations in the wholesale price of gas and electricity in the context of its future unconventional production volumes.	CFO – Julian Tedder	The Board monitors the benefit of entering into contracts at the appropriate time to protect against gas and electricity price volatility.		
9. Exchange rate risk Exposure to exchange rate risk through both its major source of revenue and its major borrowings being priced in $.	CFO – Julian Tedder	The Board monitors the cash flows of the Group to ensure currency exposure is understood. Exchange rate hedges are considered to ensure that cash inflows in dollars are matched with sterling cash outflows.		
10. Liquidity risk Exposure, through its operations, to liquidity risk.	CFO – Julian Tedder	The Board regularly reviews the Group's cash forecasts and the adequacy of available facilities to meet the Group's cash requirements.		
11. Capital risk The Group is exposed to capital risk resulting from its capital structure, including operating within the covenants of its existing bond agreements.	CEO – Julian Tedder	The capital structure is continually monitored to ensure it is in line with the business needs and ongoing asset development. Further details of the Group's capital management policy are disclosed in note 24 to the consolidated financial statements.		

From **regulation** to **communication**

Community Engagement
Engaging with communities local to our sites, both new and old, is a central ethos of IGas. Whether these are new sites being planned, sites at an early stage of development or sites being further developed after years of operations, this work takes a number of forms including leaflet deliveries, public exhibitions, site visits, town hall meetings, presentations and door-knocking. These activities are particularly important in localities who have not benefited from the experience of having an oil and gas site nearby in the past as it allows us to work in partnership with communities to ensure our local knowledge allows us to avoid any unnecessary impacts. As well as this, it provides the opportunity to explain our operations in more detail and allay any concerns people might have.

Another key method of community engagement that IGas undertakes are Community Liaison Group (CLG) meetings. We currently run two, one associated with our Tinker Lane site and one associated with our Springs Road site. Over the course of 2018, IGas Energy facilitated seven Tinker Lane CLG meetings and six Springs Road CLG meetings. These meetings provide an opportunity for IGas to answer questions brought to meetings by local County, District and Parish Councillors, and community representatives that they have been asked by the local community.

At IGas we also recognise the importance of engaging with communities around our existing sites. Though these sites are mostly well established, we still recognise the responsibility we have to being continually accessible. As such, over the last year we have responded to countless inquires relating to our conventional assets and have conducted three visits to established sites. These visits were for members of the local community, Parish Councils and local academia groups and successfully ensured that local people understand our operations and can scrutinise us on both what we're doing and how we do it.

As a result of 'gas-to-grid' Albury project, over the last year we were also required to work in conjunction with a third party – Southern Gas Networks (SGN) – to engage with a local community. Whilst we held our own public exhibition in relation to this project our expert staff also attended SGN's public exhibition. While this operation had an unavoidable impact on the local community in the form of some road closures, our work with SGN, and the work that we have undertaken over several preceding years, meant that the local community remained well informed and accommodating of our work and the long-term benefits it would deliver.

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

> The Dunholme Trust was recently the lucky recipient of IGas funding, what a huge difference the input of such funds can make to a small local charitable body.

> The playground is absolutely amazing and has transformed our Primary School students play and learning time – it is only thanks to generous funders like IGas Community Fund that were able to turn this project into a reality for our students who all have complex physical disabilities.

It was the funding support from IGas that resulted in a catalyst of events that has had an amazing impact on the lives of the pupils. The funding paid for the materials and the school contributed the time and expertise of the site team to build an outdoor classroom.

I love being at the forest school, it's the best bit of my week.

Local communities

Benjamin Adlard Primary School

Benjamin Adlard Primary School is situated in one of the most deprived areas in the country. The school has had a number of challenges over the years and whilst it continues to have those challenges the inception of a new Head Teacher's vision has resulted in an exceptionally safe and supportive school for the children and community it serves. One idea the staff wanted to pursue was the use of the land at the back of the school, whilst set on a hillside there was a myriad of experiences waiting for the pupils to explore which would offer enrichment of language and skills. However a lack of funding meant the area continued to be unused and overgrown. It was the funding support from IGas Energy that resulted in a catalyst of events that has had an amazing impact on the lives of the pupils. The funding paid for the materials and the school contributed the time and expertise of the site team to build an outdoor classroom. Once completed a Teacher dedicated to completing his Forest School Training was brought into the fold and as they say the rest is history… although the school had already made a huge difference to the lives of the pupils the inception of the Forest School was the icing on the cake. The school went on to win the Pearson Teaching Award School of the Year for Making a Difference.

Health, safety, environment and quality (HSEQ)

The health and safety of people, the protection of the environment and compliance with all applicable legal and internal requirements, as well as industry best practice, are critical to the overall success of IGas.

Providing a safe working environment for all of our staff is a business priority. Safe and sustainable performance is monitored and reported regularly. All required monitoring and measuring activities associated with HSE performance, including scheduled HSE audits, took place as planned in 2018.

The Company has achieved all of its' HSEQ Leading Indicator KPIs and its' incident rate is substantially below published (HSE Reporting of Injuries, Diseases and Dangerous Occurrences Regulations 2013 RIDDOR) industry statistic rates, based on number of employees and hours worked. The business continues to drive improvements through awareness campaigns and engagements through its committee of Representatives for Safety. This is demonstrated through IGas achieving the ROSPA Presidents Award again, representing 12 years of commitment to Occupational Health and Safety.

We are committed to working with regulators and within local communities to ensure that all our activities are undertaken safely and environmentally responsibly.

Operationally we were busy across the business and we have highlighted some of the numerous standards and guidelines that we have to conform to as part of a drilling operation on pages 12 and 13.

Whilst our activities are based on stringent regulation and risk evaluations there was a RIDDOR incident during the year which resulted in an Improvement Notice being issued by the HSE, which has been fully addressed and closed out. The follow up investigations have proved invaluable in helping to identify areas for continuous, ongoing improvement.

As an active member of UKOOG, we participate in all Health and Safety Leadership as well as Environmental Leadership working Groups. The Health and Safety Leadership Group seeks to drive safety improvements and consistency of approach across the onshore industry.

The Company seeks to ensure all waste streams are recycled and not disposed of in order to minimise the impact on the environment. We regularly audit our waste streams and work closely with our contractors to ensure the appropriate recovery/recycle options are used.

COMAH (Control of Major Accident Hazards Regulations) sites remain an ongoing programme for monitoring and improvements. Following a number of Competent Authority assessment visits no major non-compliances have been identified.

ISO 9001/14001 accreditation continues to be an important part of the business as it helps to demonstrate that we have management systems in place that meet the requirement of the international standards recognised by other businesses and regulatory authorities. The Company was pleased to announce a successful transition to ISO 9001/14001:2015 Standards in September 2018.

The Strategic Report, as set out on pages 02 to 33, has been approved by order of the Board.

Our People

Organisation culture is one of the most important attributes of any company. A common understanding of clearly defined goals, objectives and standards can motivate employees to perform and engage with their work, align behaviours to common values, increase knowledge sharing, build trust and increase productivity. Managers and supervisors across all levels of an organisation must understand the people aspects of corporate culture and be equipped with the tools to lead for success.

During 2018 IGas took the opportunity to expand its well-established HSEQ and governance training programmes to introduce a company-wide Management Development Programme for all leaders, from first line supervisors, to team managers and functional heads. Covering over 50 staff (approximately one third of the workforce) the Programme comprises an initial assessment utilising a 360° feedback tool to establish how each managers' colleagues perceive their performance against core behaviours including communication, team leading, people development, personal effectiveness and decision making.

The training, conducted over three separate days, provides an opportunity to practice and embed the learned skills before moving on to subsequent, and more challenging, modules. Broadly themed under 'Leading for Success', 'Supervisory Skills' and 'Managing Employees' each module explores a range of strategies to deal with 'real' work situations, and provides a range of techniques to effectively lead and manage teams in the delivery of well communicated and common goals.

Feedback from the training has scored highly against the 'helpful' and 'relevant' categories and identified a range of further 'wants and needs' ranging from advanced communication and conflict management training to further studies in Emotional Intelligence and NLP techniques.

As noted above, we have continued to deliver our well established corporate training programmes, whether regulatory (GDPR and Anti-Bribery), office health & safety or as part of on-going professional development captured during annual performance and development appraisals.

From **transparency** to **expertise**

Mike McTighe
Non-executive Chairman

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

The Board believes that the QCA Code provides the Group with the right governance framework in view of its size, strategy, resources and stage of development, as it offers a flexible but rigorous outcome-oriented framework in which we can continue to develop our governance model to support our business.

Dear Shareholder,

As Chair of the Company, I have overall responsibility for ensuring that good corporate governance is embraced by IGas and the Group as a whole. In doing so, I work with, and consider, the views of all Board members, the Executive Committee (Excom) and the Company's advisors. The Board is fully committed to ensuring that high standards of governance, values and behaviours are consistently applied throughout the Group, helping to ensure the integrity of our business, the successful delivery of our strategy and the long-term success of the Group as a whole.

As an AIM-listed company, IGas must comply with the AIM Rules. In March 2018, the AIM Rules were changed such that all AIM-listed companies were obliged, from 28 September 2018, to apply a recognised corporate governance code, providing details of that code on its website along with details of how the Company complies with or departs from that code. On 10 September 2018 the Board resolved to adopt the Quoted Companies Alliance Corporate Governance Code, 2018 edition (the QCA Code). The Board believes that the QCA Code provides the Group with the right governance framework in view of its size, strategy, resources and stage of development, as it offers a flexible but rigorous outcome-oriented framework in which we can continue to develop our governance model to support our business.

Our primary means of communicating the Group's corporate governance structure is through the Annual Report and various disclosures made on our website. Nevertheless, where specific questions are raised by private individual shareholders and institutional investors, we engage directly with those shareholders, principally through the Chief Executive Officer or, where appropriate, certain members of our Excom, namely the Chief Financial Officer and Director of Corporate Affairs.

Finally, a word about our corporate culture. We seek to communicate our corporate culture through staff presentations and inductions. We rely on our management structure, and our internal reporting structures to assess whether these core values have been respected, and our Director of Human Resources is tasked with monitoring internal compliance on an ongoing basis. We seek to promote our core values of: (i) respect for our people, environment, partners and the safety of others; (ii) performing to the highest standards internally and externally to deliver against our targets; (iii) collaboration through mutual trust, knowledge sharing and teamwork; (iv) commitment to the preservation of the environment whilst providing safe and healthy working conditions; and (v) transparency by being honest about what we do, how we do it, and the challenges we face.

Fundamentally, IGas is committed to gender diversity and we have a number of women in senior management roles. When recruiting for Board vacancies we fully recognise our responsibility for gender diversity as we seek to ensure that we have an appropriate mix of skills on the Board.

Application of the QCA Code and required disclosures

The QCA Code requires us to apply the principles set out above and to publish certain related disclosures in our Annual Report, on our website, or a combination of the two. We have followed the QCA Code's recommendations and have therefore provided disclosure relating to Principles 2, 3, 9 and 10 in a corporate governance statement on our website and will cover the remaining principles in this Annual Report. An index setting out where each required disclosure can be found is at the end of the corporate governance statement on our website.

Strategy and Business Model – QCA Principle One

The Group's strategy and Business model is described in our Strategic Report on pages 6 and 7.

Effective risk management – QCA Principle Four

The Group embeds risk management throughout the organisation and this is described on pages 26 to 29.

Board Balance and Skills – QCA Principle Five and Six

The Board, led by the Chair, has the necessary skills and knowledge to discharge their duties and responsibilities effectively, setting clear expectations and ensuring stringent measures for corporate governance standards are met, particularly in relation to executive remuneration, accountability and audit.

The Executive and Non-executive Directors' skill sets are complementary, and together provide a blend of broad commercial, operational, legal, and financial expertise. The skill set is suitably broad and sufficiently high calibre such that all decision making at Board level is robust and mindful of the fiduciary responsibilities that need to be discharged to all shareholders. In addition, the Directors are aware of the importance of keeping abreast of the industry's current activities and attend oil & gas conferences and events globally throughout the year to keep their skills, contacts and knowledge current and simultaneously engage with governments, global operators and service providers in the oil and gas industry.

Board Effectiveness – QCA Principle Seven

The Board intends to undertake a self-evaluation in the first half of 2019 and annually thereafter. The criteria against which the Board collectively and individually will be assessed, includes Board composition, roles and responsibilities, meetings and administration, Board committees, Board discussions, Board relationships and stewardships, monitoring and evaluation, strategy and internal control.

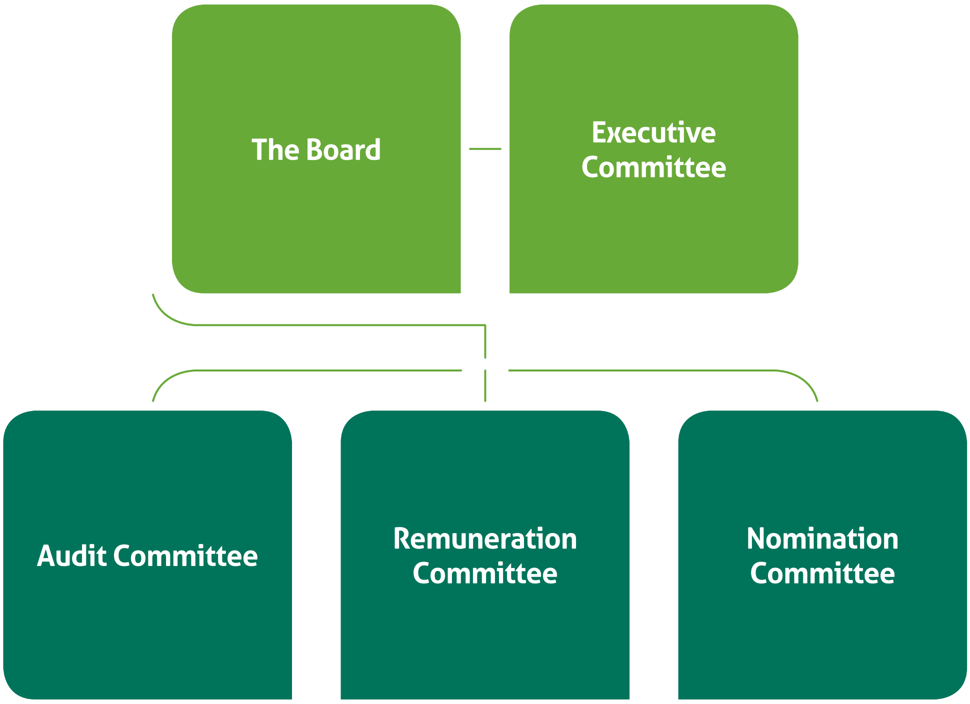
The aim of the Board evaluation is to review the effectiveness of the Board's performance and assess its strengths as well as areas for development. As part of our Board evaluation process, the Board is currently considering the Company's approach to succession planning and the procedures by which the Executive Committee determines senior management appointments. The Board will work with the Nomination Committee of the Board on the Board evaluation process. The Executive Committee and, at a more junior level, senior departmental managers address progression of employees through annual appraisals and competency reviews. The launch of a structured Management Training Programme in September 2018 will further assist key managers with training and learning opportunities.

Corporate governance principles applicable to IGas

The ten QCA Code corporate governance principles, which apply to IGas, are:

1. Establish a strategy and business model which promote long-term value for shareholders
2. Seek to understand and meet shareholder needs and expectations
3. Take into account wider stakeholder and social responsibilities and their implications for long-term success
4. Embed effective risk management, considering both opportunities and threats, throughout the organisation
5. Maintain the Board as a well-functioning, balanced team led by the chair
6. Ensure that between them the Directors have the necessary up-to-date experience, skills and capabilities
7. Evaluate Board performance based on clear and relevant objectives, seeking continuous improvement
8. Promote a corporate culture that is based on ethical values and behaviours
9. Maintain governance structures and processes that are fit for purpose and support good decision-making by the Board
10. Communicate how the Company is governed and is performing by maintaining a dialogue with shareholders and other relevant stakeholders

How we manage our Company



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

To read more
see page 34

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

To read more
see page 38

Audit Committee
The Audit Committee is responsible for monitoring and reviewing the integrity of the financial reporting processes, ensuring the financial statements give a true and fair view of the Company and overseeing the framework for risk management and ensuring it is operating effectively.

To read more
see page 40

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

To read more
see page 41

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

To read more
see page 42

From **management** to **leadership**

Name Mike McTighe
Role Non-executive Chairman
Appointed 2016
Skills and experience
Mike has held a variety of Non-executive Director roles in public and private companies over the last 20 years and was on the Board of Ofcom, the UK's communications regulator for over 8 years.
He is currently chairman of Openreach Ltd, Together Financial Services Ltd, and Arran Isle Ltd.

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

A R N

Name Stephen Bowler
Role Chief Executive Officer
Appointed 2015
Skills and experience
Steve became Chief Executive Officer in May 2015 having joined IGas as Chief Financial Officer in 2011.

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

Since Steve joined the Company, it has been through significant transformation, including the acquisition of the bulk of IGas' conventional producing assets from Petronas in 2011, acquisitions and farm-outs of IGas' unconventional acreage, including the key farm-outs to Total in 2014 and Ineos in 2015, and the refinancing of the Group in 2017.

Name Cuth McDowell
Role Non-executive Director
Appointed 2012
Skills and experience
Cuth has 35 years of international experience in the oil and gas sector, having held a range of leadership positions in Exploration and Production companies.

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

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

A R N

Name Philip Jackson
Role Non-executive Director
Appointed 2017
Skills and experience
Philip serves on Kerogen's Investment Committee. He has over 30 years' experience in investments and corporate finance in energy and infrastructure projects. He was the founder and former chief executive of J.P. Morgan Asset Management's $860 million Asian Infrastructure and Related Resources Opportunity Fund.

Philip was with J.P. Morgan (and heritage Jardine Fleming) for over 20 years, leading their power and infrastructure advisory businesses, advising on restructuring, M&A and privatisation. He started his career with the energy team at Ashurst LLP before moving to its client Trafalgar House plc, one of the UK's leading independent oil and gas companies.

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

R N

Name Tushar Kumar
Role Non-executive Director
Appointed 2017
Skills and experience
Tushar is a Partner in the Investment and Portfolio Management Team at Kerogen Capital. He has 16 years' experience in investing, investment banking and equities, working with a range of oil and gas companies including upstream, downstream, majors and NOCs across Europe, the Middle East and Asia.

He has experience in strategic advisory, particularly focused on M&A, IPOs, debt and equity financing as well as balance sheet restructuring. Prior to joining Kerogen, he was an Executive Director at Morgan Stanley's natural resources group in London, having previously worked with members of the Kerogen team at J.P. Morgan's energy and natural resources group in Hong Kong.

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

A

Committee member key
A Audit Committee
R Remuneration Committee
N Nomination Committee
Chair of Committee
Member of Committee

Executive Committee

Name Stephen Bowler
Role Chief Executive Officer
Skills and experience
Steve became Chief Executive Officer in May 2015 having joined IGas as Chief Financial Officer in 2011.

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Name Julian Tedder
Role Chief Financial Officer
Skills and experience
Julian became Chief Financial Officer in September 2015.

A chartered accountant, Julian has 15 years' senior management experience both at operational and group level within the international oil and gas sector, including Centrica plc and Tullow Oil plc.

Most recently, Julian was General Manager, Finance for Tullow Oil, having worked at the company for over 10 years, where he was ultimately responsible for 190 staff across the finance function.

Name Ross Pearson
Role Technical Director
Skills and experience
Ross Pearson, a Petroleum Engineer by trade, has extensive onshore, oil and gas experience gained over the past 18 years working in various technical roles across the E & P value chain. Ross's career started in the Western Canadian Sedimentary Basin working for Schlumberger before taking a role with Devon Energy where he held various Petroleum Engineering positions both in the Production and Development Teams.

In 2010 he moved to Australia where he initially worked for Origin Energy as a Sr. Petroleum Engineer prior to joining Senex Energy as the Development Manager where he managed a team of Geoscientists, Petrophysicists and Engineers focused on the Appraisal and Development of their conventional and unconventional oil and gas assets.

Ross has a Bachelor of Applied Science Degree in Mining Engineering from Queen's University in Canada and is a member of the Society of Petroleum Engineers.

Name Chris Beard
Role Production Director
Skills and experience
Chris (MEng BSc (Hons) CEng MIET) has 31 years' experience working in the oil and gas industry in both the upstream and downstream business.

Chris started his career working in a Maintenance and Integrity role for BP at the Llandarcy Oil Refinery in South Wales. Over the next 25 years Chris worked in a number of roles and locations for BP the last of which was at BP Wytch Farm Oilfield in Dorset, where he held a variety of technical, operational and managerial roles before finishing in the role of Onshore Site Manager.

Chris joined Providence Resources Plc as Managing Director of the UK operations before its acquisition by IGas in 2011. Chris currently has responsibility for the delivery of the Production Division Corporate strategy, goals and targets for production, operating costs in accordance with the IGas Management Systems.

Name Ross Glover
Role Development Director
Skills and experience
Ross has over 20 years of experience in project development and mining exploration and operations. Ross started his career in Southern Africa managing capital projects in the mining sector, culminating in being responsible for the operations of two diamond mines and a diamond exploration programme. Prior to joining IGas in 2017, he ran a UK based renewable energy project development company with a focus on UK onshore wind.

Ross holds a BSc in Mechanical Engineering from the University of Cape Town and an MBA from Warwick Business School.

Name Thamala Perera Schuetze
Role General Counsel
Skills and experience
General Counsel with 18 years' post-qualified experience, over 12 years of which gained at the oil and gas industry. In 2011, following the reverse takeover of Star Energy Group Limited (then a wholly-owned subsidiary of PETRONAS) by IGas, Thamala was appointed to lead the legal function of the enlarged group. She was formerly General Counsel of Star Energy responsible for the European Infrastructure Group of PETRONAS with a primary focus on gas storage.

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

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

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

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

The Directors are committed to meeting high standards of corporate governance. As an AIM listed company, IGas has a requirement to apply a recognised corporate governance code and to further demonstrate the application of its principles which underpin best practice in corporate governance. The Company has chosen to apply the Quoted Companies Alliance (QCA) Code and the Directors intend to comply with the underlying principles of the QCA Code, to the extent they consider it appropriate and having regard to the size, current stage of development and resources of the Company.

Details of how IGas addresses the key governance principles of the QCA Code which provide the Company with a governance framework which we continue to develop in respect to our business, and of the disclosures required by the Code's principles are contained in this section and on our Company website.

The Board and its Committees

Following the AGM in May 2018, the Board of the Company consists of one Executive Director and four Non-executive Directors; with Mr McTighe and Mr McDowell being considered to be independent. The Senior Independent Non-executive Director is Cuth McDowell and biographies of all the Directors are included within the Annual Report on page 37.

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

Board membership

Board member	Meetings attended (out of a total possible)
Mike McTighe (Chairman)	13/13
Stephen Bowler	13/13
Cuth McDowell	13/13
Philip Jackson	13/13
Tushar Kumar	12/13

In addition to the Directors, the Chief Financial Officer, Chief Operating Officer and General Counsel have been invited to attend each meeting of the Board and have participated in all of the meetings during the year.

The Board has the following committees each chaired by a Non-executive Director as follows:

Audit Committee

The committee comprises only Non-executive Directors; being chaired by Cuth McDowell and having as other members Mike McTighe and Tushar Kumar. Meetings are aligned with the Group's financial reporting calendar and in the year ended 31 December 2018 the committee met on three occasions. The Chief Financial Officer and Group Financial Controller are invited to attend each meeting of the committee and participated in all of the meetings during the year. The external auditors are also invited to attend meetings of the committee as appropriate and also meet the committee without the presence of management at least annually.

Audit Committee membership

Committee member	Meetings attended (out of a total possible)
Cuth McDowell (Chairman)	3/3
Mike McTighe	3/3
Tushar Kumar	3/3

Summary of the Committee's responsibilities

The committee's responsibilities include the following:

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

Key areas of focus in the year ended 31 December 2018

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

- Review of the 2018 Annual Report and of the significant risks identified which included the going concern assessment, including covenant compliance; impairment of oil and gas properties; recoverability of goodwill, the decommissioning provision and reserves and resources disclosures;
- Review of the six months ended 30 June 2018 interim results announcement and of the significant risks which included the going concern assessment, including covenant compliance and impairment of oil and gas properties; and
- Review of the planning for the 2018 Annual Report and approving the approach being taken by the Group's auditors.

Remuneration Committee

The committee comprises only Non-executive Directors, being chaired by Philip Jackson and having as other members Mike McTighe and Cuth McDowell. The committee met on two occasions in the year ended 31 December 2018. The Chief Executive Officer and Human Resources Director are invited to attend meetings. In accordance with the committee's terms of reference, no Director may participate in discussions relating to their own terms and conditions of service or remuneration.

Remuneration Committee Membership

Committee member	Meetings attended (out of a total possible)
Philip Jackson (Chairman)	2/2
Mike McTighe	2/2
Cuth McDowell	2/2

Summary of the Committee's responsibilities

The committee's responsibilities include the following:

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

Key areas of focus in the year ended 31 December 2018

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

- Review of bonus structure for the Executive Director and senior employees and agreement of the level of deferral of the bonus payment into Company shares;
- Review of long-term incentive plans and approving the issue of awards under the Executive Incentive Plan; and
- Review of performance in the year ended 31 December 2017 and recommending to the Board that a bonus of 25% be paid to all employees of the Group. The bonus was paid to staff in February 2018.

Nomination Committee

The Nomination committee is chaired by the Chairman, Mike McTighe, and its other members are the Senior Independent Non-executive Director, Cuth McDowell and Philip Jackson. The Chief Executive Officer of the Company is invited to attend meetings of the committee when the committee is discussing matters related to executive management and such other matters as the committee chairman deems appropriate. The committee meets as required during the year.

Nomination Committee Membership

Committee member	Meetings attended (out of a total possible)
Mike McTighe (Chairman)	2/2
Cuth McDowell	2/2
Philip Jackson	2/2

Summary of the Committee's responsibilities

The committee's responsibilities include the following:

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

Key areas of focus in the year ended 31 December 2018

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

- Approval of a new Executive Committee structure following the announcement of the retirement of the Chief Operating Officer as proposed by the Chief Executive Officer; and
- Ensuring that appropriate succession plans are put in place for senior management.

Internal control

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

The Group's internal control procedures include the following:

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

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

UK Bribery Act

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

Relations with shareholders and bondholders

Communications with shareholders and bondholders are considered important by the Directors. The primary contact with shareholders, bondholders, investors and analysts is the Chief Executive Officer. Other senior management, however, regularly speak to investors and analysts during the year. Company circulars and press releases have also been issued throughout the year for the purpose of keeping investors informed about the Group's progress and in accordance with AIM regulations.

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

Engaging with stakeholders

The way in which IGas solicits information from our stakeholder groups include, inter alia, public relations activities, regular formal contact via written communications, meetings, and conference calls. Informal contact is promoted through the use of social media where appropriate.

The Board seeks to understand the Company's stakeholders' needs, interests and expectations by ensuring open channels of communication at all times and permitting all parties to openly discuss any issues or concerns they may have with the Company.

The Company considers and acts on the information and feedback received by way of bilateral discussions or investor conference calls or RNS announcements when required.

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

Annual Statement

The 2017 Directors Remuneration Report noted that following a detailed review with the 'Reward and Employment' team at PwC, the Remuneration Committee proposed a number of changes to the annual cash bonus scheme, which better aligned the bonuses of the CEO and senior executives to the Company's Key Performance Indicators (KPIs) and which, in the event of superior performance in any bonus period, introduce an element of staff retention through the use of stock awards with the Board agreeing that 50% of any bonus in excess of £30,000 be paid in the form of restricted stock and subject to a minimum holding period. Consequently, the Executive Director received his 2017 bonus in cash and restricted stock.

Subsequent to the 2017 review with the 'Reward and Employment' team at PwC, the Board again agreed the Remuneration Committee Proposal that awards of restricted stock under the Executive Incentive Plan (EIP), the mechanics of which were detailed in the 2016 Annual Report, would again require an absolute share price appreciation as a condition of vesting (either in part or in full). In approving the Remuneration Committee's recommendations, the Board again stipulated that no part of the 2018 EIP award (whether to the Executive Director or any other Senior Executive) will vest in 2021 unless a share price hurdle of £1.13 is met or exceeded.

Directors' Remuneration Policy

Remuneration policy

The Company's policy is to maintain levels of remuneration sufficient to attract, motivate and retain senior executives of the highest calibre who can deliver growth in shareholder value. Executive Director remuneration currently consists of basic salary, pensions, benefits, annual bonus (based on annually set targets), and long term incentives (to reward long term performance). The Company seeks to strike an appropriate balance between fixed and performance-related reward so that the total remuneration package is structured to align a significant proportion to the achievement of performance targets, reinforcing a clear link between pay and performance. The performance targets for staff, senior executives and the Executive Director are each aligned to the key drivers of the business strategy, thereby creating a strong alignment of interest between staff, senior executive, the Executive Director and shareholders.

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

The elements of the reward package are detailed below:

Element of reward	Operation and performance conditions	Maximum opportunity
Base salary The purpose of the base salary is to: • help recruit and retain key individuals; • reflect the individual's skills, knowledge and abilities; and • ensure fair reward for 'doing the job'.	The Committee reviews base salaries annually to ensure that Executive Director pay remains competitively aligned with external market practices. In determining whether to increase levels the Committee will take the following into consideration: • the performance of the individual Director; • the individual Director's experience and responsibilities; • impact on fixed costs of any increase; and • pay and conditions throughout the Company.	The Committee will retain the discretion to increase an individual's salary where there is a significant difference between current levels and a market competitive rate for similar positions in similar organisations (based on size, complexity and industry sector).
Other benefits including pension	The Company provides Executive Directors with a pension contribution up to 15% of base salary, as well as other benefits in kind including medical insurances and income protection / lump sum payments in the event of extended sickness absence / disability and/or death in service.	
Annual Cash Bonus	Executive Directors and staff are eligible to participate in a discretionary bonus plan. The Committee will determine on an annual basis the level of deferral, if any, of the bonus payment into Company shares (currently 50% of any award in excess of £30,000). Maximum bonus levels and the proportion payable for targeted performance are considered in the light of market bonus levels for similar roles among the industry sector. Bonuses paid in cash (and where applicable, shares) are not pensionable. In terms of bonus targets a balanced scorecard approach is operated which focuses on a mixture of strategic, operational, financial and non-financial metrics.	The percentage of maximum bonus entitlement received is based on the achievement of individually challenging targets supporting corporate objectives. The maximum potential bonus entitlement for the Executive Director under the plan is to up to 100% of base salary.
Long Term Incentive Plan (LTIP)	Under the LTIP, adopted by the Board in 2011 participants can each be granted two types of award: an Initial Award and an Annual Award. Both types of award are in the form of a nil cost option. If the relevant conditions attaching to the awards are met at the end of a three year vesting period, then the participant has a further seven years in which to exercise the award. The primary purpose of the Initial Awards is to aid the recruitment of key executives. These awards vest at the end of a three year performance period provided the Company's share price performance exceeds the Company's weighted average cost of capital of 10%. The LTIP also provides for Annual Awards to be granted which will vest at the end of a three year period provided certain challenging corporate performance conditions have been met. The purpose of the Annual Award is to provide a competitive annual total remuneration package which retains and motivates the Executive Directors and other selected executives.	The maximum individual limit for an Initial Award is 300% of salary. The maximum individual limit for an Annual Award in any financial year is 200% of salary (this limit was increased from 150% during the 2014/15 financial year). No awards have been made under this Plan since November 2015.

Element of reward	Operation and performance conditions	Maximum opportunity
Executive Incentive Plan (EIP)	Under the EIP adopted by the Board in March 2016, participants were granted a share award in the form of a nil-cost option, released at the end of a three year holding period provided that the Executive remain in employment and that the Remuneration Committee are satisfied that corporate performance has been satisfactory (with reference to share price). A multiplier will also apply to this share award to ensure that management are focused on the execution of the business strategy and the creation of long-term value for shareholders. For the first share award (March 2016) the multiplier was set as follows: **Share price target*** — **Multiplier** £10.00 — 1.50 x shares awarded £15.00 — 2.00 x shares awarded * Re-stated to account for the Share Capital Consolidation & Sub-Division 14 June 2017. For the second and third share award (October 2017 and March 2018) the multiplier was set as follows: **Share price target** — **Multiplier** < £1.13 — 0.00 x shares awarded £1.13 – £1.25 — 0.25 x shares awarded £1.26 – £1.39 — 0.50 x shares awarded £1.40 – £1.54 — 0.75 x shares awarded £1.55 – £1.74 — 1.00 x shares awarded £1.75 – £1.96 — 1.50 x shares awarded > £1.96 — 2.00 x shares awarded The Executive Director is required to build a shareholding over a 5 year period of at least 150% of salary to further support the alignment of their interests with those of shareholders.	Annual award to the current Executive Director of no more than 75% of salary (100% in exceptional circumstances) subject to two times multiplier (i.e. the maximum number of shares which could vest is equal to 150% of salary).
Executive Director Retention Plan (EDRP)	Under the EDRP, participants are granted nil cost options which vest and become exercisable on the first anniversary of grant subject to the Directors' continued employment and to a one year holding period following the date of vesting.	The EDRP was adopted as an exceptional share arrangement and S Bowler was made an award of options over 175,000* ordinary shares in July 2015. No subsequent awards have been made under this Plan. * Re-stated to account for the Share Capital Consolidation & Sub-Division 14 June 2017
Share Investment Plan (SIP)	In 2013, the Company adopted an HMRC approved SIP for all employees of the Group. The scheme is a tax efficient incentive plan pursuant to which all employees are eligible to subscribe for up to £150 (or 10% of salary, if less) worth of IGas ordinary shares per month. Shares are acquired on a quarterly basis and the Company automatically matches the employee contribution, acquiring matching 'Partnership' shares on a 1-to-1 basis. Subject to the Company achieving pre-defined quarterly production targets, the Company increases the Partnership share matching element for that quarter to 2-to-1. In order to receive their allocation of Company Partnership shares, employees must ordinarily remain employed by the Company for a period of 3 years from the date of grant of the matching award.	Employees are eligible to acquire up to £150 (or 10% of salary, if less) worth of IGas ordinary shares per month from gross salary. The Company will match the shares purchased on a 1-to-1 basis and, subject to the Company having met pre-defined quarterly production targets, will increase the matching element for that quarter to 2-to-1.

Annual Report on Remuneration

Remit of the Remuneration Committee

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

Share price movements during the year

The Group's share price as at 31 December 2018 was 96.00p per share. The highest price during the year was 126.50p per share and the lowest share price during the year was 73.00p per share.

Current arrangements in financial year (Audited)

Executive Director

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

Directors' emoluments for the year were as follows:

	Year ended 31 December 2018						Year ended 31 December 2017					
Executive Director	**Salary £'000**	**Payment in lieu of pension £'000**	**Bonus (Cash) £'000**	**Bonus (Shares) £'000**	**Pensions £'000**	**Total £'000**	Salary £'000	Payment in lieu of pension £'000	Bonus (Cash) £'000	Bonus (Shares) £'000	Pensions £'000	Total £'000
S Bowler – CEO	**357**	**37**	**73**	**43**	**10**	**520**	350	37	94	29	10	520
J Blaymires – COO[1]	**–**	**–**	**–**	**–**	**–**	**–**	128	16	35	9	–	188
J Tedder – CFO[1]	**–**	**–**	**–**	**–**	**–**	**–**	114	11	32	8	5	170
Total – Executive Directors	**357**	**37**	**73**	**43**	**10**	**520**	592	64	161	46	15	878

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

On 21 March 2018 S Bowler was made a Base Award under the 2016 EIP scheme over 396,667 ordinary shares in the Company

As at 31 December 2018, the outstanding long term incentives held by the Directors who served during the period are set out in the table below:

Existing share incentive arrangements:

Executive Director Retention Plan	Date of grant	At 1 January 2018	Share Options Granted	Share Options Exercised	Share Options Lapsed	As at 31 December 2018	Earliest vesting date	Lapse date
S Bowler	13/07/2015	175,000[1]	–	–	–	175,000	13/07/2016	13/07/2023

2016 Executive Incentive Plan	Date of grant	At 1 January 2018	Share Options Granted	Share Options Exercised	Share Options Lapsed	As at 31 December 2018	Earliest vesting date	Lapse date
S Bowler	30/03/2016	74,076[1]	–	–	–	74,076	30/03/2019	30/03/2026
	16/10/2017	388,889	–	–	–	388,889	16/10/2020	16/10/2027
	21/03/2018	–	396,667	–	–	396,667	21/03/2021	21/03/2028
		462,965	396,667	–	–	859,632		

2016 Management Retention Plan (Bonus Scheme Shares)	Date of grant	At 1 January 2018	Share Options Granted	Share Options Exercised	Share Options Lapsed	As at 31 December 2018	Earliest vesting date	Lapse date
S Bowler	21/03/2018	–	33,431	–	–	33,431	17/01/2019	21/03/2026

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

Non-executive Directors

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

	Year ended 31 December 2018				Year ended 31 December 2017			
Non Executive Directors	**Emoluments £'000**	**Taxable benefits £'000**	**Pensions £'000**	**Total £'000**	Emoluments £'000	Taxable benefits £'000	Pensions £'000	Total £'000
M McTighe	**100**	**–**	**–**	**100**	100	–	–	100
C McDowell	**60**	**–**	**–**	**60**	60	–	–	60
P Jackson[1]	**55**	**–**	**–**	**55**	30	–	–	30
T Kumar[1]	**45**	**–**	**–**	**45**	25	–	–	25
F Gugen[2]	**–**	**–**	**–**	**–**	60	–	–	60
J Bryant[2]	**–**	**–**	**–**	**–**	43	–	–	43
Total – Non-executive Directors	**260**	**–**	**–**	**260**	318	–	–	318

1 P Jackson and T Kumar were both appointed to the Board with effect from 14 June 2017. Under the terms of their appointments, IGas Energy PLC pays an annual Fee (Invoiced quarterly in advance) to Kerogen Capital for £55,000 in respect of P Jackson and £45,000 in respect of T Kumar.

2 F Gugen and J Bryant resigned from the Board with effect from 14 June 2017.

Philip Jackson
Chairman Remuneration Committee
27 March 2019

Directors' Report

The Directors present their report together with the Group and Parent Company financial statements for the year ended 31 December 2018.

Business review and future developments

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

Dividends

The Directors do not recommend the payment of a dividend for the year (Year ended 31 December 2017: £nil).

Principal activity

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

Directors and their interests

The Directors who served during the year were as follows:

Element of reward	Operation and performance conditions
M McTighe	Non-executive Chairman
S Bowler	Chief Executive Officer
P Jackson	Non-executive
T Kumar	Non-executive
C McDowell	Non-executive

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

	31 December 2018 Ordinary 0.002p Shares		31 December 2017 Ordinary 10p Shares	
	Number	%	Number	%
M McTighe	**583,056**	**0.47**	583,056	0.47
S Bowler	**66,845**	**0.06**	61,262	0.05
C McDowell	**219,170**	**0.18**	219,170	0.18
P Jackson	**–**	**–**	–	–
T Kumar	**–**	**–**	–	–

In addition to the table above, in January 2019, S Bowler subscribed to his full entitlement under the Group's share scheme and accordingly was allotted 1,126 shares.

Annual General Meeting 2019

The Annual General Meeting (AGM) of the Company will be held at the offices of Cooley (UK) LLP, Dashwood, 69 Old Broad Street, London EC2M 1QS on Tuesday 14 May 2019, commencing at 10:30 a.m. The resolutions to be proposed at the AGM are set out and fully explained in the notice of AGM available on the Company's website at: https://www.igasplc.com/investors/publications-and-reports.

Rotation and re-election of Directors

In accordance with the Articles of Association, C McDowell and S Bowler retire by rotation and offer themselves for re-election at the AGM on 14 May 2019.

Directors' insurance and indemnity provisions

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

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

Substantial shareholders

As at 27 March 2019, the Company had been notified in accordance with the requirements of provision 5.1.2 of the Financial Conduct Authority's Disclosure Guidance and Transparency Rules of the following significant holdings in the Company's ordinary share capital:

	Number of Shares	%
Kerogen General Partner II Limited	33,964,100	27.8
KOG Investments S.A.R.L.	17,923,583	14.7
HSBC Bank Plc	14,987,438	12.3
Royal London AM	10,155,760	8.3

Financial instruments

The Group's principal financial instruments comprise cash balances, borrowings, derivative instruments and other debtors and creditors that arise through the normal course of business as set out in note 22 to the consolidated financial statements. The Group's financial risk management objectives are also set out in note 22 to the consolidated financial statements.

Employment policy

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

Political contributions

The Group made no political donations during the year (Year ended 31 December 2017: £nil).

Status

The Company is not a close company as defined in the Income and Corporation Taxes Act 1988. The Company is domiciled in the UK and incorporated and registered in England.

Board committees

Information on the Audit, Remuneration, and Nomination committees is included in the Corporate Governance section of the Annual Report.

Auditors

A resolution to reappoint PricewatehouseCoopers LLP as auditors will be proposed at the AGM on 14 May 2019 and a fee will be agreed in due course by the Audit committee and the Board.

Directors' statement as to disclosure of information to the auditor

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

By order of the Board

Cooley Services Limited
Secretary
IGas Energy plc
Registered Office:
7 Down Street
London
W1J 7AJ
Registered in the United Kingdom number: 04981279

27 March 2019

Directors' Statement of Responsibilities in Relation to the Group Annual Report and Accounts

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

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

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

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

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

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

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

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

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

On behalf of the Board,

Stephen Bowler
Chief Executive Officer
27 March 2019

Independent auditors' report
to the members of IGas Energy plc

Report on the audit of the Group financial statements

Opinion

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

- Give a true and fair view of the state of the Group's affairs as at 31 December 2018 and of its loss and cash flows for the year then ended;
- Have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union; and
- Have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual report and accounts (the 'Annual Report'), which comprise: the Consolidated Balance Sheet as at 31 December 2018; the Consolidated Income Statement and Consolidated Statement of Comprehensive Income, the Consolidated Cash Flow Statement, and the Consolidated Statement of Changes in Equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

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

Independence

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

Our audit approach

Overview

Materiality	• Overall Group materiality: £1.2 million (2017: £1.2 million), based on 0.5% of total assets.
Audit scope	• We identified 4 components out of the Group's 25 separate statutory entities/combinations thereof, which were selected due to their size and risk characteristics. Specific audit procedures were performed on certain balances and transactions at a further 3 units. • This enabled us to obtain coverage over 99% of Group consolidated revenue and 99% of Group consolidated total assets.
Key audit matters	• Carrying value of conventional oil & gas assets. • Carrying value of unconventional assets and goodwill. • Completeness and valuation of the decommissioning provision. • Basis of going concern.

The scope of our audit

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

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

Key audit matters

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

Key audit matter	How our audit addressed the key audit matters
Carrying value of conventional oil & gas assets See page 63 to 64 Significant accounting judgements and estimates and note 11 Property, plant and equipment. Conventional oil and gas assets totalled £89 million. These represent 98% of the Group's total property, plant and equipment. We focused on this area due to the material nature of the balance, the judgement involved in assessing for impairment and the estimates required to calculate the value in the current economic climate.	We have evaluated the discounted cash flow model prepared by management which supports the carrying value of the CGU's (North, South and Scotland). We have verified that the exchange rate used is comparable with the actual exchange rates as at 31 December 2018 and the long-term average of the past 3 years. We agreed the forecast oil price to third party consensus forecasts. We concluded management's price forecast was reasonable. Management's production forecasts, another key assumption, were reconciled to the independent reserves report prepared by D&M in January 2019. Another key element of the forecast is the discount rate. We have performed our own independent calculation and consider it to be reasonable. Finally we considered the adequacy of management's disclosure of the key judgements and sensitivities in relation to the impairment assessment in note 11. These were deemed to be in line with the requirements of IAS 36.
Carrying value of unconventional assets and goodwill See page 63 to 64 Significant accounting judgements and estimates and note 10 Intangible exploration and evaluation asset. The carrying value of the Group's unconventional assets was £89.3 million after an impairment of £29.1 million in the year, in addition the Group has £4.8 million of goodwill assigned to the unconventional assets acquired on the acquisition of Dart Energy Limited in October 2014. These represent 95% of the Group's total intangible exploration and evaluation assets. We focused on this area due to the material nature of the balance, the judgement involved in assessing for impairment and the estimates required to calculate the value in the current economic climate.	As at 31 December 2018, in accordance with IFRS 6, management assessed the assets for impairment indicators. We have evaluated management's valuation which supports the carrying value of the unconventional assets and assigned goodwill. This included confirming that for each licence that there was an on-going exploration and evaluation work programme and that the carrying amount of the licence was likely to be recovered in full from successful development or by sale. We concur with management that assets with a carrying value of £29.1 million did not met this criteria and in line with IFRS 6 were written-off in the year; and that the remaining carrying value is supportable.

Key audit matter	How our audit addressed the key audit matters
Completeness and valuation of the decommissioning provision See page 63 to 64 Significant accounting judgements and estimates and note 19 Provisions. A provision of £38 million has been made for the abandonment of fields and the gathering centres. The abandonment and decommissioning are expected to take place between 1 and 26 years from the year end.	We have reviewed the completeness of the number of wells included in management's estimate. We have assessed management's cost per well estimate and have reviewed the results of actual decommissioning's costs over the previous three years. We have reviewed the work performed by management's expert on estimating the cost estimate for decommissioning the gathering centres and challenged them on the estimates used. We have benchmarked the risk free rate used by management compared with industry practice. Based on the procedures performed we concur with management that their assessment of the decommissioning provision is reasonable.
Basis of going concern Refer to page 40 Audit Committee Report, and page 62 note 1 (b) Accounting Policies. We focused on this area given the recent volatility in oil price and foreign exchange, and the need to ensure compliance with the terms of the secured bonds, including financial covenants. The ability of the Group and Company to continue as a going concern is dependent on Management's ability to maintain liquidity in order to repay its existing creditors and outstanding debt. Management's assessment of going concern is based on cash flow projections and business plans, each of which is dependent on management's judgement and can be influenced by management bias.	In assessing the appropriateness of the going concern assumption used in preparing the financial statements, we: • Checked the mathematical accuracy of Management's cash flow forecast and validated the opening cash position; • Validated Management's underlying cash flow projections for the Company and Group to other external and internal sources where appropriate, including recent production, oil price forecasts and comparing cost assumptions to historic actuals and underlying budgets; • Performed sensitivity analysis to assess the impact of the key assumptions underlying the forecast such as a reduction in oil price, weaker operational performance and a strengthening of the British Pound against the US Dollar, and the Company and the Group's ability to take mitigating actions, if required; and • Reviewed the completeness and appropriateness of management's going concern disclosures as disclosed in the financial statements. Our conclusions on going concern are set out later in this report.

How we tailored the audit scope

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

The Group is structured along two segments being conventional and unconventional licenses. The Group financial statements are a consolidation of 25 separate statutory entities, comprising the Group's operating businesses and centralised functions within these segments. All of the Group's operating business and 94% of the total assets and liabilities are located in the UK. All the Group entities have central management and centralised processes and controls and therefore our audit work was all conducted solely in the UK.

Accordingly, of the Group's 25 reporting units, we identified 4 which, in our view, required an audit of their complete financial information, either due to their size or their risk characteristics. This included the main conventional oil & gas operating subsidiaries, the main unconventional license holding subsidiaries, as well as the Parent Company. Specific audit procedures on certain balances and transactions were performed at a further 3 reporting units. Because the Group includes a number of relatively small reporting units, this gave us coverage over 99% of consolidated revenue and 99% coverage over total assets. This, together with additional procedures performed at the Group level, gave us the evidence we needed for our opinion on the Group financial statements as a whole.

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

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

Overall Group materiality	£1.2 million (2017: £1.2 million).
How we determined it	Based on 0.5% of total assets
Rationale for benchmark applied	We believe that total assets are reflective of the of the Group's current operations and has more relevance than earnings to shareholders.

For each component in the scope of our Group audit, we allocated a materiality that is less than our overall Group materiality. The range of materiality allocated across components was between £200,000 and £1,100,000. Certain components were audited to a local statutory audit materiality that was also less than our overall Group materiality.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £62,500 (2017: £60,000) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Conclusions relating to going concern
ISAs (UK) require us to report to you when:

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

We have nothing to report in respect of the above matters.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Group's ability to continue as a going concern. For example, the terms on which the United Kingdom may withdraw from the European Union are not clear, and it is difficult to evaluate all of the potential implications on the Group's trade, customers, suppliers and the wider economy.

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

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

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

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

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 December 2018 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

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

Responsibilities for the financial statements and the audit

Responsibilities of the Directors for the financial statements

As explained more fully in the Directors' Statement of Responsibilities in Relation to the Group Financial Statements and Annual Report set out on page 51, the Directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The Directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditors' responsibilities for the audit of the financial statements

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

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

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

Use of this report

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

Other required reporting

Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- certain disclosures of Directors' remuneration specified by law are not made.

We have no exceptions to report arising from this responsibility.

Other matter

We have reported separately on the parent company financial statements of IGas Energy plc for the year ended 31 December 2018.

Richard Spilsbury
(Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
27 March 2019

Consolidated Income Statement
For the year ended 31 December 2018

	Note	**Year ended 31 December 2018 £000**	Year ended 31 December 2017 £000
Revenue	2	**42,928**	35,793
Cost of sales:			
Depletion, depreciation and amortisation		**(6,824)**	(7,832)
Other costs of sales		**(21,932)**	(21,435)
		(28,756)	(29,267)
Gross profit		**14,172**	6,526
Administrative expenses		**(5,467)**	(6,441)
Redundancy costs	4	**–**	(212)
Exploration and evaluation assets written-off	10	**(29,067)**	(70)
Loss on oil price derivatives	3	**(638)**	(2,050)
Loss on foreign exchange hedges	3	**(180)**	–
Other (costs)/income	5	**(60)**	214
Operating loss	3	**(21,240)**	(2,033)
Finance income	6	**69**	277
Finance costs	6	**(3,948)**	(6,428)
Gain on restructuring	25	**–**	4,935
Loss from continuing activities before tax		**(25,119)**	(3,249)
Income tax credit	7	**3,745**	19,105
(Loss)/profit after tax from continuing operations attributable to shareholder's equity			**(21,374)**
15,856			
Profit/(loss) after taxation from discontinued operations	16	**41**	(375)
Net (loss)/profit for the year attributable to shareholder's equity		**(21,333)**	15,481
(Loss)/profit attributable to equity shareholders:			
Basic (loss)/earnings per share	8	**(17.56p)**	12.76p
Diluted (loss)/earnings per share	8	**(17.56p)**	12.46p

Consolidated Statement of Comprehensive Income
For the year ended 31 December 2018

	Year ended 31 December 2018 £000	Year ended 31 December 2017 £000
(Loss)/profit for the year	**(21,333)**	15,481
Other comprehensive (loss)/income for the year:		
Currency translation adjustments	**(235)**	931
Total comprehensive (loss)/income for the year	**(21,568)**	16,412

The notes on pages 61 to 91 form an integral part of these financial statements.

Consolidated Balance Sheet
As at 31 December 2018

	Note	31 December 2018 £000	31 December 2017 £000
ASSETS			
Non-current assets			
Goodwill	9	**4,801**	4,801
Intangible exploration and evaluation assets	10	**89,282**	115,130
Property, plant and equipment	11	**91,403**	93,158
Restricted cash	15	**410**	303
Deferred tax asset	7	**20,656**	16,900
		206,552	230,292
Current assets			
Inventories	13	**1,149**	1,322
Trade and other receivables	14	**9,589**	7,459
Cash and cash equivalents	15	**15,112**	15,727
Restricted cash	15	**193**	126
Derivative financial instruments	22	**2,158**	–
Assets held for sale	16	**10,100**	–
		38,301	24,634
Total assets		**244,853**	254,926
LIABILITIES			
Current liabilities			
Trade and other payables	17	**(11,878)**	(6,558)
Current tax liabilities		**–**	(358)
Borrowings	18	**(2,389)**	(1,687)
Derivative financial instruments	22	**(180)**	(2,749)
Liabilities held for sale	16	**(10,272)**	–
		(24,719)	(11,352)
Non-current liabilities			
Borrowings	18	**(18,591)**	(19,553)
Other creditors	17	**(1,916)**	(303)
Other provisions	19	**(37,946)**	(42,117)
		(58,453)	(61,973)
Total liabilities		**(83,172)**	(73,325)
Net assets		**161,681**	181,601
EQUITY			
Capital and reserves			
Called up share capital	23	**30,333**	30,333
Share premium account	23	**102,501**	102,342
Foreign currency translation reserve		**(7,294)**	(7,059)
Other reserves	24	**31,310**	29,994
Accumulated surplus		**4,831**	25,991
Total equity		**161,681**	181,601

These financial statements were approved and authorised for issue by the Board on 27 March 2019 and are signed on its behalf by:

Stephen Bowler
Chief Executive Officer

Julian Tedder
Chief Financial Officer

The notes on pages 61 to 91 form an integral part of these financial statements.

Consolidated Statement of Changes in Equity
For the year ended 31 December 2018

	Called up share capital (note 23) £000	Share premium account (note 23) £000	Foreign currency translation reserve* £000	Other reserves** (note 24) £000	Accumulated (deficit)/ surplus £000	Total equity £000
At 1 January 2017	30,282	32	(7,990)	28,757	19,451	70,532
Profit for the year	–	–	–	–	15,481	15,481
Share options issued under the employee share plan (note 24)	–	–	–	1,333	–	1,333
Forfeiture of options under the employee share plan	–	–	–	(85)	56	(29)
Lapse of options under the employee share plan	–	–	–	(11)	11	–
Issue of shares and conversion of debt (note 23)	51	93,302	–	–	–	93,353
Reserves transfer on equitisation of unsecured bonds***	–	9,008	–	–	(9,008)	–
Currency translation adjustments	–	–	931	–	–	931
At 31 December 2017	30,333	102,342	(7,059)	29,994	25,991	181,601
Loss for the year	**–**	**–**	**–**	**–**	**(21,333)**	**(21,333)**
Share options issued under the employee share plan (note 24)	**–**	**–**	**–**	**1,489**	**–**	**1,489**
Issue of shares (note 23)	**–**	**159**	**–**		**–**	**159**
Lapse of options under the employee share plan	**–**	**–**	**–**	**(173)**	**173**	**–**
Currency translation adjustments	**–**	**–**	**(235)**	**–**	**–**	**(235)**
At 31 December 2018	**30,333**	**102,501**	**(7,294)**	**31,310**	**4,831**	**161,681**

* The foreign currency translation reserve represents exchange gains and losses arising on translation of foreign currency subsidiaries net assets and results, and on translation of those subsidiaries intercompany balances which form part of the net investment of the Group.

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

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

The notes on pages 61 to 91 form an integral part of these financial statements.

Consolidated Cash Flow Statement
For the year ended 31 December 2018

	Notes	Year ended 31 December 2018 £000	Year ended 31 December 2017 £000
Cash flows from operating activities:			
Loss before tax		**(25,119)**	(3,249)
Net gain on capital restructuring	25	**–**	(4,935)
Depletion, depreciation and amortisation	11	**6,923**	7,968
Abandonment costs/other provisions utilised	19	**(91)**	(39)
Share based payment charge	4	**1,606**	1,056
Exploration and evaluation assets written-off	10	**29,067**	70
Unrealised (gain)/loss on oil price derivatives	3	**(4,906)**	1,872
Unrealised loss on foreign exchange hedges	3	**180**	–
Finance income	6	**(69)**	(277)
Finance costs	6	**3,948**	6,428
Other non-cash adjustments		**43**	24
Operating cash flow before working capital movements		**11,582**	8,918
Decrease in trade and other receivables and other financial assets		**993**	40
Increase/(decrease) in trade and other payables, net of accruals related to investing activities		**536**	(2,084)
Decrease/(increase) in inventories		**173**	(52)
Cash generated from continuing operating activities		**13,284**	6,822
Cash (used in)/generated from discontinued operating activities		**(335)**	422
Taxation paid – continuing operating activities		**(9)**	(571)
Net cash generated from operating activities		**12,940**	6,673
Cash flows from investing activities:			
Purchase of intangible exploration and evaluation assets		**(2,496)**	(2,591)
Purchase of property, plant and equipment		**(8,152)**	(3,679)
Proceeds from disposal of assets		**18**	14
Other income received		**38**	–
Interest received		**69**	27
Cash used in continuing investing activities		**(10,523)**	(6,229)
Net cash used in investing activities		**(10,523)**	(6,229)
Cash flows from financing activities:			
Cash proceeds from issue of ordinary share capital	23	**70**	77
Cash proceeds from the issue of shares in capital restructuring	25	**–**	46,789
Cash paid in settlement of secured bonds	25	**–**	(39,337)
Fees paid relating to capital restructure	25	**–**	(4,311)
Repayment and repurchase of borrowings	15	**(1,722)**	(5,423)
Interest paid	15	**(1,751)**	(5,917)
Net cash used in financing activities		**(3,403)**	(8,122)
Net decrease in cash and cash equivalents in the year		**(986)**	(7,678)
Net foreign exchange difference		**371**	(1,541)
Cash and cash equivalents at the beginning of the year		**15,727**	24,946
Cash and cash equivalents at the end of the year	15	**15,112**	15,727

The notes on pages 61 to 91 form an integral part of these financial statements.

Consolidated Financial Statements – Notes
For the year ended 31 December 2018

1 Accounting policies
(a) Basis of preparation of financial statements

The Consolidated financial statements of IGas Energy plc (the Company) and subsidiaries (the Group) have been prepared in accordance with International Financial Reporting Standards, adopted for use by the European Union (IFRSs) as they apply to the Group for the year ended 31 December 2018 and with the Companies Act 2006. The accounts were approved by the Board and authorised for issue on 27 March 2019. IGas Energy plc is a public limited company incorporated and registered in England and Wales and listed on the Alternative Investment Market (AIM).

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

New and amended standards and interpretations

During the year, the Group adopted the following new and amended IFRSs for the first time for their reporting period commencing 1 January 2018:

IFRS 2	Classification and measurement of share-based payment transactions – Amendment to IFRS 2
IFRS 9	Financial Instruments
IFRS 15	Revenue from Contracts with Customers

The Group has adopted IFRS 15 from 1 January 2018, which resulted in changes in accounting policies; however no adjustments were required to the amounts recognised in the financial statements.

IFRS 9 replaces the provisions of IAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting. The adoption of IFRS 9 from 1 January 2018 resulted in changes in accounting policies; however no adjustments were required to the amounts recognised in the financial statements.

New standards and interpretations not yet adopted

Certain new standards, interpretations and amendments to existing standards have been published that are mandatory only for the Group's accounting periods beginning on or after 1 January 2019 or later periods and which the Group has not adopted early. Those that may be applicable to the Group in future are as follows:

IFRS 16	Leases	1 January 2019*
IFRIC Interpretation 23	Uncertainty over Income Tax Treatments	1 January 2019*
Amendments to IAS 28	Long-term interest in Associates and Joint Ventures	1 January 2019*

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

Other than IFRS 16, there are no other standards that are not yet effective and that would be expected to have a material impact on the entity in the current or future reporting periods. The Group's assessment of the impact of IFRS 16 is set out below:

Nature of change

IFRS 16 was issued in January 2016. It will result in almost all leases being recognised on the balance sheet by lessees, as the distinction between operating and finance leases is removed. Under the new standard, an asset being the right to use the leased asset, and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases.

Impact

The Group has reviewed the existing population of leases and any new leases in light of the new lease accounting rules in IFRS 16. The standard will affect primarily the accounting for the Group's operating leases.

As at the reporting date, the Group has non-cancellable operating lease commitments of £9.6 million, see note 21. Of these commitments, approximately £0.017 million relate to low value leases which will be recognised on a straight line basis as an expense in the income statement. For the remaining lease commitments the Group expects to recognise right-of-use assets of approximately £6.0 million on 1 January 2019, lease liabilities of £5.6 million (after adjustments for prepayments and accrued lease payments recognised as at 31 December 2018). Overall net assets will be approximately £0.4 million higher, and net current assets will be £1.4 million lower due to the presentation of a portion of the liability as a current liability.

1 Accounting policies continued

Impact continued

The Group expects that net profit after tax will increase by approximately £0.3 million for 2019 as a result of adopting the new rules. Adjusted EBITDA is expected to increase by approximately £1.3 million, as the operating lease payments were included in EBITDA, but the amortisation of the right-of-use assets and interest on the lease liability are excluded from this measure.

Operating cash flows will increase and financing cash flows decrease by approximately £1.4 million as repayment of the principal portion of the lease liabilities will be classified as cash flows from financing activities.

The discount rates to be used on transition will be the incremental borrowing rates as appropriate for each lease based on factors such as the lessee legal entity and lease term. The incremental borrowing rate applicable for all of the leases for the Group is between 10.88% to 11.64%.

Mandatory application

The Group will apply the standard from its mandatory adoption date of 1 January 2019. The Group intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption. All right-of-use assets will be measured at the amount of the lease liability on adoption (adjusted for any prepaid or accrued lease expenses).

(b) Going concern

The Group continues to closely monitor and manage its liquidity risks including the continued use of both oil and interest rate derivatives. Cash forecasts for the Group are regularly produced based on, inter alia, the Group's production and expenditure forecasts, management's best estimate of future oil prices, management's best estimate of foreign exchange rates and the Group's borrowings. Sensitivities are run to reflect different scenarios including, but not limited to, possible further reductions in commodity prices, strengthening of sterling and reductions in forecast oil and gas production rates. The Group's base case working capital forecasts show that the Group will have sufficient financial headroom for the 12 months from the date of approval of the financial statements. To manage the impact of the most extreme downside scenarios modelled, management would have to take action, including delaying capital expenditure in order to remain within the Company's banking facilities. All such mitigating actions are within management's control.

Therefore, after making appropriate enquiries and considering the risks described above, the Directors have a reasonable expectation that the Group has adequate resources to continue in existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in the preparation of the financial statements.

(c) Basis of consolidation

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

At 31 December 2018, the Group comprised the Company and entities controlled by IGas Energy plc (its subsidiaries). No new subsidiaries were acquired during the year.

(d) Business combinations

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

1 Accounting policies continued

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

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

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

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

(f) Significant accounting judgements and estimates
The preparation of the Group's consolidated financial statements in conformity with IFRSs requires management to make judgements and estimates that affect the reported amounts of assets and liabilities and the disclosure of contingent liabilities at the date of the consolidated financial statements, and the reported amounts of revenues and expenses during the reporting period. Estimates and assumptions are continuously evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. However, actual outcomes can differ from these estimates.

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

Recoverable value of intangible exploration and evaluation assets
The Group has capitalised intangible exploration and evaluation assets in accordance with IFRS 6. Significant judgement is required in considering whether it is appropriate to continue to carry these costs on the balance sheet and whether the assets have been impaired. The key areas in which management has applied judgement and estimation include the Group's intention to proceed with a future work programme for a prospect or licence, the likelihood of licence renewal or plans for relinquishment, the assessment of results from wells or geological or geophysical studies, the likely impact of political factors including planning permissions and the assessment of whether the carrying amount of the exploration and evaluation asset is unlikely to be recovered in full from successful development or by sale.

Details of the Group's intangible exploration and evaluation assets are disclosed in note 10 to the financial statements.

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

Recoverable value of goodwill
The Group assesses goodwill each reporting period to determine whether there is any impairment. The assessment requires the use of estimates and assumptions such as long-term oil prices, discount rates, reserves, production profiles and capital expenditure. These estimates and assumptions are subject to risk and uncertainty. Therefore, there is a possibility that changes in circumstances will impact these projections, which may impact the recoverable value of goodwill. Details of the Group's goodwill are disclosed in note 9 to the financial statements.

1 Accounting policies continued

(f) Significant accounting judgements and estimates continued

Proved and probable reserves and contingent resources

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

Deferred tax asset recognition

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

Decommissioning costs

The estimated cost of decommissioning at the end of the producing lives of fields is reviewed periodically and is based on forecast price levels and technology at the balance sheet date. Provision is made for the estimated cost at the balance sheet date, using a discounted cash flow methodology and a risk free rate of return. Details of the Group's decommissioning provisions are disclosed in note 19 to the financial statements.

Functional currency

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

(g) Exceptional items

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

(h) Revenue

Revenue comprises the invoiced value of goods and services supplied by the Group, net of value added tax and trade discounts. Revenue is recognised at a point in time when the control of the goods have passed onto the customers and there is no unfulfilled obligation that could affect the customer's acceptance of the goods. In the case of oil, gas and electricity sales, these are recognised when goods are delivered and title has passed to the customer. This generally occurs when the product is physically delivered to the customer's premises or transferred into a vessel, pipe or other delivery mechanism.

Revenue from the production of oil from fields in which the Group has an interest with other producers, is recognised based on the Group's working interest and the terms of the relevant production sharing contracts. Where oil produced by third parties is processed and delivered to a refinery by the Group, the measurement of the revenue depends upon whether physical title to the oil passes to the Group or whether the Group simply acts an agent for the producer.

Estimates of revenues, costs or extent of progress toward completion are revised if circumstances change. Any resulting increases or decreases in estimated revenues or costs are reflected in profit or loss in the period in which the circumstances that give rise to the revision become known by management. In the case of fixed-price contracts, the customer pays the fixed amount based on a payment schedule. If the invoiced value of goods or services rendered exceed the payment, a contract asset will be recognised. If the payments exceed the invoiced value of goods or services rendered, a contract liability will be recognised.

1 Accounting policies continued

(i) Non-current assets

Goodwill

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognised over the fair value of the identifiable net assets acquired and liabilities assumed in a business combination. After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment at least annually and when circumstances indicate that the carrying value may be impaired. Impairment is determined for goodwill by assessing the recoverable amount of each cash generating unit (CGU) or group of CGUs to which the goodwill relates. Where the recoverable amount of the CGU is less than its carrying amount, an impairment loss is recognised. Impairment losses relating to goodwill are not reversed in future periods.

Non-current assets (or disposal groups) held for sale and discontinued operations

Non-current assets (or disposal groups) are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use and a sale is considered highly probable. They are measured at the lower of their carrying amount and fair value less costs to sell, except for assets such as deferred tax assets, assets arising from employee benefits, financial assets and investment property that are carried at fair value and contractual rights under insurance contracts, which are specifically exempt from this requirement.

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

Non-current assets (including those that are part of a disposal group) are not depreciated or amortised while they are classified as held for sale. Interest and other expenses attributable to the liabilities of a disposal group classified as held for sale continue to be recognised.

Non-current assets classified as held for sale and the assets of a disposal group classified as held for sale are presented separately from the other assets in the balance sheet. The liabilities of a disposal group classified as held for sale are presented separately from other liabilities in the balance sheet.

A discontinued operation is a component of the entity that has been disposed of or is classified as held for sale and that represents a separate major line of business or geographical area of operations, is part of a single co-ordinated plan to dispose of such a line of business or area of operations, or is a subsidiary acquired exclusively with a view to resale. The results of discontinued operations are presented separately in the statement of profit or loss.

Intangible exploration and evaluation assets

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

- Any costs incurred prior to obtaining the legal rights to explore an area are expensed immediately to the Income Statement;
- Expenditures recognised as exploration and evaluation assets comprise those related to acquisition of rights to explore, topographical, geological, geochemical and geophysical studies, exploratory drilling (including coring and sampling), activities in relation to evaluating the technical feasibility and commercial viability of extracting hydrocarbons (including appraisal drilling and production tests) and any land rights acquired for the sole purpose of effecting these activities. These costs include employee costs, directly attributable overheads, materials and consumables, equipment costs and payments made to contractors;
- Tangible assets acquired for use in exploration and evaluation activities are classified as property, plant and equipment. However, to the extent that such tangible assets are consumed in developing an intangible exploration and evaluation asset, the amount reflecting that consumption is recorded as part of the exploration and evaluation asset;
- Expenditures recognised as exploration and evaluation assets are initially accumulated and capitalised by reference to appropriate geographic areas. Expenditure recognised as exploration and evaluation assets are transferred to property plant and equipment and classified as oil and gas assets when technical feasibility and commercial viability of extracting hydrocarbons is demonstrable; and
- Exploration and evaluation assets are assessed for impairment (on the basis described below), and any impairment loss recognised, before reclassification.

1 Accounting policies continued

(i) Non-current assets continued

Impairment testing of exploration and evaluation assets

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

Property plant and equipment – oil and gas properties

- Oil and gas properties and other property, plant and equipment are stated at cost, less accumulated depreciation and accumulated impairment losses;
- The cost of an asset comprises its purchase price or construction cost, any costs directly attributable to bringing the asset into operation and, for qualifying assets where relevant, borrowing costs. The purchase price or construction cost is the aggregate amount paid and the fair value of any other consideration given to acquire the asset. The cost of oil and gas assets also includes an amount equal to the decommissioning cost estimate. The capitalised value of any associated finance leases are also included within property, plant and equipment;
- Oil and gas properties are depleted either on a unit of production basis, commencing at the start of commercial production, or depreciated on a straight line basis over the relevant asset's estimated useful life. Where expenditure is depreciated on a unit of production basis, the depletion charge is calculated according to the proportion that production bears to the recoverable reserves for each property; and
- Net proceeds from any disposal of development/producing assets are compared to the previously capitalised costs for the relevant asset or group of assets. A gain or loss on disposal of a development/producing asset is recognised in the Income Statement to the extent that the net proceeds exceed or are less than the appropriate portion of the net capitalised costs of the asset or group of assets.

Impairment of oil and gas properties

The Group's interests in oil and gas properties are assessed for indications of impairment including events or changes in circumstances which indicate that the carrying value of an asset may not be recoverable. Any impairment in value is charged to the Income Statement.

Impairment tests are carried out on the following basis:

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

Decommissioning

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

Carried interests

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

1 Accounting policies continued

(i) Non-current assets continued

Other property plant and equipment

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

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

The Group does not capitalise amounts considered to be immaterial.

(j) Financial instruments

Cash and cash equivalents

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

Other financial assets – Restricted cash

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

Trade and other receivables

Trade receivables are amounts due from customers for goods sold or services performed in the ordinary course of business. They are generally due for settlement within 30 days and are therefore all classified as current. Trade receivables are initially recognised at the amount of consideration that is unconditional, unless they contain significant financing components, in which case they are recognised at fair value. Details about the Group's impairment policy and the calculation of loss allowance is provided in the Impairment accounting policy below.

Trade and other payables

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

Derivative financial instruments and hedge accounting

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

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

1 Accounting policies continued

(j) Financial instruments continued

Warrants

Warrants which do not qualify as equity instruments under IFRS 9 due to the variable number of shares that would be issued in each case are accounted for as financial liabilities. The warrants are initially recognised at fair value on the date they are issued and are subsequently re-measured to fair value at each period end. All changes in fair value are recognised in the income statement.

Impairment of financial assets

At the end of each reporting period, a provision is made if there is objective evidence that a financial asset or group of financial assets was impaired. A financial asset or a group of financial assets was impaired and impairment loss is incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event'), and that loss event (or events) had an impact on the estimated future cash flows of the financial asset or group of financial assets that could be reliably estimated.

Assets carried at amortised cost

For loans and receivables, the amount of loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that had not been incurred), discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of loss is recognised in the income statement.

If in the subsequent period, the amount of loss decreased and the decrease is related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the income statement.

Expected credit loss

From 1 January 2018, the Group assesses, on a forward-looking basis, the expected credit losses associated with its debt instruments carried at amortised cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk. For trade receivables, the Group applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognised from initial recognition of receivables.

(k) Borrowings

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

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

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of these assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation. All other borrowing costs are recognised in the income statement in the periods in which they are incurred.

(l) Leases

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

Operating leases

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

Finance leases

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

1 Accounting policies continued

(m) Inventories

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

(n) Taxation

The tax charge/credit includes current and deferred tax.

Current income tax assets and liabilities are measured at the amount expected to be recovered or paid to the tax authorities. Taxable profit/(loss) differs from the profit/(loss) before taxation as reported in the Income Statement as it excludes items of income or expense that are taxable or deductible in different periods and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised in respect of all temporary differences that have originated but not reversed at the balance sheet date except when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss. Temporary differences arise from differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax liabilities are not discounted. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered and the carrying amount is reviewed at each reporting date. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period when the asset is realised or the liability is settled, based on the tax rates and laws that have been enacted or substantively enacted at the reporting date. Deferred tax relating to items recognised outside profit or loss are recognised in correlation to the underlying transaction, either in other comprehensive income or directly in equity.

(o) Share based payments

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

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

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

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

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

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

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

1 Accounting policies continued

(p) Post-retirement benefits

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

(q) Equity

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

(r) Foreign currency

The consolidated financial statements are presented in UK pound sterling, the functional currency of the Group. Transactions denominated in currencies other than functional currency are translated at the exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are re-translated at the rate of exchange ruling at the balance sheet date. All differences that arise are recorded in the income statement.

For the purposes of consolidation, the income statement items of those entities for which the UK pound sterling is not the functional currency are translated into UK pound sterling at the average rates of exchange during the period. The related balance sheets are translated at the rates ruling at the balance sheet date. Exchange differences arising on translation of the opening net assets and results of such operations, are reported in other comprehensive income and accumulated in equity.

The exchange differences arising on intercompany balances that form part of an entity's net investment in a foreign operation, are recognised in other comprehensive income and accumulated in foreign currency translation reserve until the disposal of the foreign operation.

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

(s) Discontinued operations

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

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

Property, plant and equipment and intangible assets are not depreciated or amortised once classified as held for sale. Assets and liabilities classified as held for sale are presented separately as current items in the statement of financial position.

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

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

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

2 Revenue

The Group derives revenue solely within the United Kingdom from the transfer of goods and services to external customers which is recognised at a point in time. The Group's major product lines are:

	Year ended 31 December 2018 £000	Year ended 31 December 2017 £000
Oil sales	**41,978**	35,289
Electricity sales	**888**	504
Gas sales	**62**	–
	42,928	35,793

Revenues of approximately £21.6 million and £20.4 million were derived from the Group's two largest customers (2017: £19.3 million and £15.9 million) and are attributed to the oil sales.

As at 31 December 2018, there are no contract assets or contract liabilities outstanding.

3 Operating loss

	Year ended 31 December 2018 £000	Year ended 31 December 2017 £000
Operating loss is stated after charging:		
Staff costs	**12,960**	12,781
Depletion, depreciation and amortisation	**6,923**	7,957
Auditors' remuneration:		
Audit of the financial statements	**225**	300
Audit of the Company's subsidiaries	**72**	127
Taxation advisory services	**33**	102
Other non-audit services	**53**	163
Operating lease charges:		
Land and buildings	**1,794**	2,093
Other	**271**	229

Loss on oil price derivatives

	Year ended 31 December 2018 £000	Year ended 31 December 2017 £000
Realised loss on maturity of oil price derivatives	**(5,544)**	(178)
Unrealised gain/(loss) on oil price derivatives	**4,906**	(1,872)
	(638)	(2,050)

Loss on foreign exchange derivatives

	Year ended 31 December 2018 £000	Year ended 31 December 2017 £000
Unrealised loss	**(180)**	–

4 Employee information

	Year ended 31 December 2018 £000	Year ended 31 December 2017 £000
Staff costs comprised:		
Wages and salaries	**9,488**	9,648
Social security costs	**1,139**	1,129
Other pension costs	**727**	773
Employee share based payment cost	**1,606**	1,231
	12,960	12,781

	No.	No.
Average monthly number of employees including Directors in the year		
Operations, including services	**116**	118
Administrative	**39**	42
	155	160

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

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

The Group recognised £nil (2017: £0.2 million) of redundancy costs for the year.

5 Other (costs)/income

Other (costs)/income comprises costs of £0.06 million (2017: income of £0.2 million).

6 Finance income and costs

	Year ended 31 December 2018 £000	Year ended 31 December 2017 £000
Finance income:		
Interest on short-term deposits	**63**	26
Foreign exchange gains	**–**	239
Other interest	**6**	1
Gain on fair value of warrants	**–**	11
Finance income	**69**	277
Finance expense:		
Interest on borrowings	**1,948**	5,358
Foreign exchange loss	**895**	–
Unwinding of discount on provisions (note 19)	**1,105**	1,070
Finance expense	**3,948**	6,428

7 Income tax credit

(i) Tax charge on loss from continuing ordinary activities

	Year ended 31 December 2018 £000	Year ended 31 December 2017 £000
Current tax:		
Charge on loss for the year	**–**	–
Charge/(credit) in relation to prior years	**9**	(426)
Total current tax charge/(credit)	**9**	(426)
Deferred tax:		
Credit relating to the origination or reversal of temporary differences	**(782)**	(21,180)
Charge due to tax rate changes	**84**	–
(Credit)/charge in relation to prior years	**(3,056)**	2,501
Total deferred tax credit	**(3,754)**	(18,679)
Tax credit on loss on ordinary activities	**(3,745)**	(19,105)

ii) Factors affecting the tax charge

The majority of the Group's profits are generated by 'ring-fence' businesses which attract UK corporation tax and supplementary charge at a combined average rate of 40%.

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

	Year ended 31 December 2018 £000	Year ended 31 December 2017 £000
Loss from continuing ordinary activities before tax	**(25,119)**	(3,249)
Expected tax credit based on loss from continuing ordinary activities multiplied by an average combined rate of corporation tax and supplementary charge in the UK of 40% (2017: 40%)	**(10,047)**	(1,300)
Deferred tax (credit)/charge in respect of the prior year	**(3,056)**	2,501
Current tax charge/(credit) related to prior year	**9**	(426)
Tax effect of expenses not allowable for tax purposes	**1,190**	679
Tax effect of differences in amounts not allowable for supplementary charge purposes*	**999**	1,467
Impact of profits or losses taxed or relieved at different rates	**603**	(1,699)
Use of losses under the loss restriction rules	**(827)**	–
Net increase/(decrease) in unrecognised losses carried forward	**7,138**	(20,347)
Intra-group transfer of assets	**11**	–
Tax rate change	**84**	–
Other	**151**	20
Tax credit on loss on ordinary activities	**(3,745)**	(19,105)

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

7 Income tax credit continued

iii) Deferred tax

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

	Year ended 31 December 2018 £000	Year ended 31 December 2017 £000
Asset/(liability) at 1 January	**16,900**	(1,779)
Tax credit/(charge) relating to prior year	**3,056**	(2,501)
Tax credit during the year	**782**	21,180
Tax charge arising due to the changes in tax rates	**(84)**	–
Other	**2**	–
Asset at 31 December	**20,656**	16,900

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

	31 December 2018 £000	31 December 2017 £000
Accelerated capital allowances	**(26,409)**	(33,897)
Tax losses carried forward	**35,721**	41,553
Investment allowance unutilised	**840**	485
Decommissioning provision	**8,095**	4,628
Share based payments	**1,483**	1,288
Other	**926**	2,843
Deferred tax asset	**20,656**	16,900

iv) Tax losses

Deferred tax assets have been recognised in respect of tax losses and other temporary differences where the Directors believe it is probable that these assets will be recovered. Such tax losses include £114.0 million (2017: £107.5 million) of ring-fence corporation tax losses.

The Group has further tax losses and other similar attributes carried forward of approximately £203 million (2017: £195 million) for which no deferred tax asset is recognised due to insufficient certainty regarding the availability of appropriate future taxable profits. The unrecognised losses may affect future tax charges should certain subsidiaries in the Group generate taxable trading profits in future periods.

8 Earnings per share (EPS)

Basic EPS amounts are based on the loss for the year after taxation attributable to ordinary equity holders of the parent of £21.3 million (2017: a profit of £15.5 million) and the weighted average number of ordinary shares outstanding during the year of 121.5 million (2017: 121.4 million).

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

There were 4.6 million potentially dilutive employee share options which are not included in the calculation of diluted earnings per share because they are anti-dilutive as their conversion to ordinary shares would decrease the loss per share. In the prior year, there were no potentially dilutive employee share options.

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

	Year ended 31 December 2018	Year ended 31 December 2017
Basic (loss)/earnings per share – ordinary shares of 0.002 pence each	**(17.56p)**	12.76p
Diluted (loss)/earnings per share – ordinary shares of 0.002 pence each	**(17.56p)**	12.46p
(Loss)/profit for the year attributable to equity holders of the parent – £000	**(21,333)**	15,481
Weighted average number of ordinary shares in the year – basic EPS	**121,483,931**	121,357,572
Weighted average number of ordinary shares in the year – diluted EPS	**126,104,420**	124,298,195

9 Goodwill

	31 December 2018 £000	31 December 2017 £000
At 1 January and 31 December	**4,801**	4,801

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

The Group tests goodwill for impairment annually or more frequently if there are indications that goodwill might be impaired. The Group reviewed the valuation of goodwill as at 31 December 2018 and assessed it for impairment by estimating the fair value of risked contingent resources using an estimated market valuation of resources. The fair value is a level 3 fair value measurement, as defined in note 22. No impairment was required for the year (2017: £nil).

10 Intangible exploration and evaluation assets

	31 December 2018 £000	31 December 2017 £000
At 1 January	**115,130**	112,448
Additions	**3,561**	2,752
Transfers to held for sale	**(342)**	–
Amounts written-off	**(29,067)**	(70)
At 31 December	**89,282**	115,130

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

Exploration costs written-off were £29.1 million (31 December 2017: £0.1 million). An impairment of £20.7 million in 2018 relates to the Doe Green production facility in the North West (PEDL 145) where a long-term test determined that there is no potential for a commercial development; £3.2 million relating to a well that is not being used in the current Albury development and £5.2 million relating to the relinquishment of licences during the year. The impairment in 2017 relates entirely to the relinquishment of licences. As part of our ongoing active portfolio management, we are continually reviewing our acreage positions and will continue to seek to relinquish non-core licences or impair licences where the carrying value cannot be supported. Further analysis by location of asset is as follows:

North West: The Group has £48.7 million of capitalised exploration expenditure which includes PEDL's 145, 147, 184, 189 and 190. Work is still ongoing to assess the viability for shale exploration and development across the North West licences though we await the outcome of the ongoing Ellesmere Port planning appeal before commencing further operations.

East Midlands: The Group has £36.9 million of capitalised exploration expenditure which includes PEDL's 12, 139, 140 and 200. The Tinker Lane well (PEDL 200) was completed in fourth quarter of 2018. We are currently drilling a well at our Springs Road site (PEDL 140). Further details are included in the operational review section of the Annual Report.

South: The Group has £3.7 million of capitalised exploration expenditure in relation to Singleton.

As at 31 December 2018, the Group has a combined carried gross work programme of up to $220 million (£170 million) (2017: $240 million (£178 million)) from its partner, INEOS Upstream Limited (INEOS). In 2018 £9.2 million (2017: £3.0 million) gross costs were carried principally in relation to activities at Tinker Lane and Springs Road, which have not been reflected in the additions to intangible exploration and evaluation assets.

11 Property, plant and equipment

	31 December 2018			31 December 2017		
	Oil and gas assets £'000	**Other fixed assets £'000**	**Total £'000**	Oil and gas assets £'000	Other fixed assets £'000	Total £'000
Cost						
At 1 January	**171,888**	**3,603**	**175,491**	168,329	3,767	172,096
Additions	**10,135**	**104**	**10,239**	3,380	58	3,438
Disposals	**(25)**	**(57)**	**(82)**	(14)	(23)	(37)
Changes in decommissioning**	**4,596**	**–**	**4,596**	–	–	–
Transfers	**–**	**–**	**–**	193	(193)	–
Transfers to assets held for sale	**(31,945)**	**(779)**	**(32,724)**	–	–	–
Write-off	**–**	**–**	**–**	–	(6)	(6)
At 31 December	**154,649**	**2,871**	**157,520**	171,888	3,603	175,491
Depreciation and Impairment						
At 1 January	**80,756**	**1,577**	**82,333**	72,894	1,494	74,388
Charge for the year*	**6,638**	**285**	**6,923**	7,669	299	7,968
Disposals	**(25)**	**(57)**	**(82)**	–	(23)	(23)
Transfers	**–**	**–**	**–**	193	(193)	–
Transfers to assets held for sale	**(22,367)**	**(690)**	**(23,057)**	–	–	–
At 31 December	**65,002**	**1,115**	**66,117**	80,756	1,577	82,333
NBV at 31 December	**89,647**	**1,756**	**91,403**	91,132	2,026	93,158

* Charge for the year includes £99 thousand charge categorised as administration expenses in the profit and loss (2017: £125 thousand) and £nil thousand (2017: £11 thousand) relating to capitalised equipment used for exploration and evaluation.

** The decommissioning asset increased in line with the decommissioning liability following a review of the estimate and assumptions at 31 December 2018 (note 19).

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

Impairment of oil and gas properties

Due to the continuing volatility in oil and gas prices and foreign exchange rates, the Group's oil and gas properties were reviewed for impairment as at 31 December 2018. CGUs for impairment purposes are the group of fields whereby technical, economic and/or contractual features create underlying interdependence in cash flows. The Group has identified the three main producing CGUs as: North, South, and Scotland. The impairment assessment for the North and South was prepared on a value-in-use basis and using discounted future cash flows based on 2P reserve profiles. The impairment assessment for Scotland was prepared on a fair value less costs of disposal basis. The future cash flows were estimated using price assumption for Brent of $60/bbl for the years 2019-2022 and $75/bbl thereafter, and a USD/GBP foreign exchange rate of $1.30: £1.00. Cash flows were discounted using a pre-tax discount rate of 11%. No impairment was required in the year (2017: £nil).

Sensitivity of changes in assumptions

As discussed above, the principal assumptions are recoverable future production and resources, estimated Brent prices and the USD/GBP foreign exchange rate. A 10% reduction in production would result in an impairment of £9.0 million for the North CGU and £1.9 million for the South CGU. A decline in the value of sterling against the US dollar from $1.30: £1.00 to $1.50: £1.00 would result in an impairment of £14.5 million for the North CGU, £7.9 million for the South CGU and £0.3 million for Scotland CGU. None of the CGUs would be impacted by a 10% change in discount rates.

12 Interest in joint arrangements

As at 31 December 2018, the Group has a combined carried gross work programme of up to $220 million (£170 million) from its farm-in partners – INEOS Upstream Limited (INEOS), (see note 10).

The Group's material joint operations as at 31 December 2018 are set out below:

Licenses	Partner	IGas' interest	Operator
East Midlands			
PEDL169	Egdon	80%	IGas
EXL288	INEOS	75%	IGas
PEDL146	INEOS	75%	IGas
PEDL210	INEOS	75%	IGas
PEDL 012	INEOS	55%	IGas
PEDL200	INEOS	55%	IGas
PEDL278	Egdon	50%	IGas
PEDL273	INEOS, Total, Egdon	35%	IGas
PEDL305	INEOS, Total, Egdon	35%	IGas
PEDL316	INEOS, Total, Egdon	35%	IGas
PEDL139	INEOS, Edgon, eCorp	32%	IGas
PEDL140	INEOS, Edgon, eCorp	32%	IGas
North West			
PEDL190	INEOS	50%	IGas
PEDL145	INEOS	40%	INEOS
PEDL147	INEOS	25%	IGas
PEDL184	INEOS	50%	IGas
PEDL189	INEOS	25%	IGas
PEDL190	INEOS	50%	IGas
PEDL193	INEOS	40%	INEOS
PEDL293	INEOS	30%	INEOS
PEDL295	INEOS	30%	INEOS
EXL 273	INEOS	15%	INEOS
Weald			
PL211	UKOOG	90%	IGas
PEDL070	UKOOG, Egdon, Aurora, Corfe,	54%	IGas

13 Inventories

	31 December 2018 £000	31 December 2017 £000
Oil stock	**502**	596
Drilling and maintenance materials	**647**	726
	1,149	1,322

14 Trade and other receivables

	31 December 2018 £000	31 December 2017 £000
VAT recoverable	**153**	245
Trade debtors	**2,837**	3,464
Other debtors	**4,888**	1,692
Prepayments	**1,711**	2,058
	9,589	7,459

Trade debtors are amounts due from customers for goods sold or services performed in the ordinary course of business. They are generally non-interest bearing and due for settlement within 30 days and are therefore all classified as current. Trade receivables are recognised initially at the amount of consideration that is unconditional, unless they contain significant financing components, in which case they are recognised at fair value. The Group holds the trade receivables with the objective of collecting the contractual cash flows, and so it measures them subsequently at amortised cost using the effective interest method. Details about the Group's impairment policies and the calculation of the loss allowance are provided in note 22.

Due to the short-term natures of the current receivables, their carrying amount is considered to be the same as their fair value.

15 Cash and cash equivalents

	31 December 2018 £000	31 December 2017 £000
Cash at bank and in hand	**15,112**	15,727

Restricted cash

	31 December 2018 £000	31 December 2017 £000
Current	**193**	126
Non-current	**410**	303

The cash and cash equivalents does not include restricted cash.

The current and non-current restricted cash for 2018 and the non-current restricted cash for 2017 represent restoration deposits paid to Nottinghamshire County Council which serve as collateral for the restoration of the sites at the end of their life. The current restricted cash balance for 2017 relates to margin payments in respect of oil hedge contracts.

The restoration deposits are subject to regulatory and other restrictions and are therefore not available for general use by the other entities within the Group.

15 Cash and cash equivalents and other financial assets continued

Net debt reconciliation

	31 December 2018 £000	31 December 2017 £000
Cash and cash equivalents	**15,112**	15,727
Borrowings – including capitalised fees	**(20,980)**	(21,240)
Net debt	**(5,868)**	(5,513)
Capitalised fees	**(518)**	(686)
Net debt excluding capitalised fees	**(6,386)**	(6,199)

	31 December 2018			31 December 2017		
	Cash and cash equivalents £000	Borrowings £000	Total £000	Cash and cash equivalents £000	Borrowings £000	Total £000
At 1 January 2017	**15,727**	**(21,240)**	**(5,513)**	24,946	(124,579)	(99,633)
Capital restructuring	**–**	**–**	**–**	3,140	90,025	93,165
Repayment and repurchase of borrowings	**(1,722)**	**1,722**	**–**	(5,423)	5,423	–
Interest paid	**(1,751)**	**–**	**(1,751)**	(5,917)	5,917	–
Foreign exchange adjustments	**371**	**(1,238)**	**(867)**	(1,541)	2,369	828
Other cash flows	**2,487**	**–**	**2,487**	522	–	522
Other non-cash movements	**–**	**(224)**	**(224)**	–	(395)	(395)
At 31 December 2017	**15,112**	**(20,980)**	**(5,868)**	15,727	(21,240)	(5,513)

16 Disposal group classified as held for sale and discontinued operations

Discontinued operations

The divestment of assets acquired as part of the Dart Acquisition, namely the Rest of the World segment, was completed in 2016. The Group still has a presence in a number of Australian and Singaporean registered operations and continues its plans to exit all legal jurisdictions in the near future. The total profit after tax in respect of discontinued operations was £0.04 million primarily relating to administration costs and over-accruals in prior year (year ended 31 December 2017: loss after tax of £0.4 million, primarily relating to administration costs).

Disposal group classified as held for sale

In May 2018, we announced the potential sale of certain non-core assets to Onshore Petroleum Limited (OPL). We believe the OGA will not give their consent to the proposed transaction and are therefore in the process of exploring alternative options with OPL and the OGA as to the structure and form of a transaction. The major classes of assets and liabilities included in the assets classified as held for sale and the associated liabilities at the balance sheet date, are as follows:

	31 December 2018 £000
Intangible exploration and evaluation assets	**342**
Property, plant and equipment	**9,667**
Oil stock	**91**
Total assets	**10,100**
Trade and other payables	**(350)**
Provisions	**(9,922)**
Total liabilities	**(10,272)**
Net liabilities	**(172)**

17 Trade and other payables

	31 December 2018 £000	31 December 2017 £000
Current		
Trade creditors	**4,573**	1,366
Employment taxes	**316**	285
Other creditors and accruals	**6,989**	4,907
	11,878	6,558
Non-current		
Amounts due to a related party	**371**	303
Other creditors and accruals	**1,545**	–
	1,916	303

Trade creditors are unsecured and are usually paid within 30 days of recognition.

The carrying amounts of each of the Group's financial liabilities included within trade and other payables are considered to be a reasonable approximation of their fair value.

18 Borrowings

	31 December 2018			31 December 2017		
	Current £000	**Non-current £000**	**Total £000**	Current £000	Non-current £000	Total £000
Bonds – secured	**2,389**	**18,591**	**20,980**	1,687	19,553	21,240

In 2013, the Company and Norsk Tillitsmann (Bond Trustee) entered into a Bond Agreement for the Company to issue up to $165.0 million secured bonds and up to $30.0 million unsecured bonds (issued at 96% of par). These bonds were subsequently listed on Oslo Bors and the Alternative bond market in Oslo. Both secured and unsecured bonds carried a coupon of 10% per annum (where interest was payable semi-annually in arrears). The secured bonds were amortised semi-annually at 2.5% of the initial loan amount. Final maturity on the secured notes was on 22 March 2018 and on the unsecured notes was 11 December 2018.

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

Further details of the restructuring transaction are provided in note 25.

19 Other provisions

	31 December 2018			31 December 2017		
	Decommissioning £000	**Other £000**	**Total £000**	Decommissioning £000	Other £000	Total £000
At 1 January	**42,117**	**–**	**42,117**	40,885	39	40,924
Utilisation of provision	**(91)**	**–**	**(91)**	–	(39)	(39)
Unwinding of discount (note 6)	**1,105**	**–**	**1,105**	1,070	–	1,070
Reassessment of decommissioning provision/liabilities*	**4,737**	**–**	**4,737**	162	–	162
Transfer to liabilities held for sale	**(9,922)**	**–**	**(9,922)**	–	–	–
At 31 December	**37,946**	**–**	**37,946**	42,117	–	42,117

* £4,596,000 per note 11, the remainder being in long term creditors (note 17).

Decommissioning provision

Provision has been made for the discounted future cost of restoring fields to a condition acceptable to the relevant authorities. The abandonment of the fields is expected to happen at various times between 1 to 26 years from the year end (2017: 1 to 31 years). These provisions are based on the Groups' internal estimate as at 31 December 2018. Assumptions based on the current economic environment have been made, which management believes are a reasonable basis upon which to estimate the future liability. The estimates are reviewed regularly to take into account any material changes to the assumptions. Actual decommissioning costs will ultimately depend upon future costs for decommissioning which will reflect market conditions and regulations at that time. Furthermore, the timing of decommissioning is uncertain and is likely to depend on when the fields cease to produce at economically viable rates. This, in turn, will depend on factors such as future oil and gas prices, which are inherently uncertain.

A risk free rate range of 0.98% to 3.04% is used in the calculation of the provision as at 31 December 2018 (2017: Risk free rate range of 0.98% to 3.05%).

20 Pension scheme

The Group operates a defined contribution pension scheme. Contributions payable by the Group for the year ended 31 December 2018 were £0.73 million (2017: £0.77 million).

Contributions amounting to £0.07 million were accrued at 31 December 2018 (2017: £0.06 million) and are included in trade and other payables.

21 Commitments

The Group's capital commitments comprised:

Capital commitments

	31 December 2018 £000	31 December 2017 £000
Conventional capex	**137**	878
Unconventional capex	**2,573**	5,604
Total capital commitments	**2,710**	6,482

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

Operating lease commitments

	31 December 2018 £000	31 December 2017 £000
Minimum lease payments under operating leases recognised in operating loss for the year	**2,065**	2,323
The Group had future minimum lease payments under non-cancellable operating leases as follows:		
– within 1 year	**1,656**	1,714
– after 1 year but not more than 5 years	**4,125**	2,731
– after 5 years	**3,824**	945
Total	**9,605**	5,390

22 Financial instruments and risk management

Fair values

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

	Carrying amount		Fair value	
	31 December 2018 £000	31 December 2017 £000	**31 December 2018 £000**	31 December 2017 £000
Amortised cost				
Borrowings[1]	**20,980**	21,240	**20,875**	21,452

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

Fair value hierarchy

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

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

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

Financial assets and liabilities measured at fair value

	31 December 2018 £000	31 December 2017 £000
Financial assets: Level 2		
Derivative financial instruments – oil hedges	**2,158**	–

	31 December 2018 £000	31 December 2017 £000
Financial liabilities: Level 2		
Derivative financial instruments – oil hedges	**–**	2,749
Derivative financial instruments – foreign exchange hedges	**180**	–
	180	2,749

Fair value of derivative financial instruments

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

22 Financial instruments and risk management continued

Derivative financial instruments

During the year, the Group entered into spot and forward foreign currency hedges to manage its exposure to exchange rate risk as its major source of revenue is denominated in USD whereas costs, with the exception of those relating to the secured bond, are primarily denominated in GBP. The market value of the currency hedges was £180,000 at 31 December 2018 (2017: nil).

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

The outstanding oil hedge contracts as at 31 December 2018 were as follows:

	Term	Contract amount	Contract price/rate	Contract price/rate	Contract price/rate	**Fair value at 31 December 2018 £000**
			Buy Put	Sell Call	Buy Call	
US dollar Asian 3-way collar	Jan 2019-Mar 2019	105k bbls oil	$55.00/bbl	$70.00/bbl	$85.00/bbl	**354**
US dollar Asian	Jan 2019-Mar 2019	45k bbls oil	$55.00/bbl			**155**
US dollar Asian 3-way collar	Apr 2019-Jun 2019	37.5k bbls oil	$55.00/bbl	$78.55/bbl	$93.55/bbl	**168**
US dollar Asian	Apr 2019-Jun 2019	37.5k bbls oil	$56.70/bbl			**202**
US dollar Asian	Apr 2019-Jun 2019	75k bbls oil	$64.00/bbl			**707**
US dollar Asian	Jul 2019-Sep 2019	75k bbls oil	$60.25/bbl			**572**
						2,158

The above derivatives mature over the period from 1 January 2019 until 30 September 2019. A loss of £5.5 million was realised on hedges during the year to 31 December 2018.

The outstanding contracts as at 31 December 2017 were as follows:

	Term	Contract amount	Contract price/rate	Contract price/rate	Contract price/rate	Fair value at 31 December 2017 £000
			Buy Put	Sell Call	Buy Call	
US dollar Asian 3-way collar	Oct 2018-Dec 2018	150k bbls oil	$55.00/bbl	$65.00/bbl	$80.00/bbl	137
US dollar Asian 3-way collar	Apr 2018-Sep 2018	300k bbls oil	$46.00/bbl	$60.00/bbl	$75.00/bbl	1,332
US dollar Asian 3-way collar	Jan 2018-Mar 2018	150k bbls oil	$41.00/bbl	$54.00/bbl	$69.00/bbl	1,280
						2,749

The above derivatives matured over the period from 1 January 2018 until 31 December 2018. During the year to 31 December 2017, oil hedges for 165 thousand barrels matured in January and a loss of £0.2 million was realised (note 3).

Fair value of financial assets and financial liabilities

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

22 Financial instruments and risk management continued

Financial risk management

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

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

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

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

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

Market risk

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

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

The following assumptions have been made in preparing the sensitivity analyses:

- The sensitivity of the relevant profit before tax item is the effect of the assumed changes in market risks. This is based on the financial assets and financial liabilities held at 31 December 2018 and 31 December 2017; and
- The impact on equity is the same as the impact on profit before tax and ignores the effects of deferred tax, if any.

Commodity price risk

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

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

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

	Increase/(decrease) in profit before tax and equity	
	31 December 2018 £000	31 December 2017 £000
15% increase in the price of oil	**2,759**	4,396
15% decrease in the price of oil	**(2,759)**	(4,396)

22 Financial instruments and risk management continued

Foreign currency risk

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

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

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

	Increase/(decrease) in profit before tax for the year ended and to equity as at	
	31 December 2018 £000	31 December 2017 £000
10% strengthening of the pound against the US dollar	**1,141**	720
10% weakening of the pound against the US dollar	**(1,141)**	(720)

Credit risk

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

At 31 December 2018, two customers (2017: two) accounted for approximately 99% (2017: 97%) of trade receivables of £2.7 million (2017: £3.7 million).

With respect to credit risk arising from the other financial assets of the Group, which comprise cash, cash equivalents and derivative contracts, the Group's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments. The Group limits its counterparty credit risk on these assets by dealing only with financial institutions with credit ratings of at least A or equivalent other than if the UK government is a majority shareholder. At 31 December 2018, the maximum exposure was £17.3 million (2017: £15.7 million).

Liquidity risk

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

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

	On demand £000	< 1 year £000	1–2 years £000	2–3 years £000	>3 years £000	Total £000
At 31 December 2018						
Borrowings	**–**	**4,070**	**3,878**	**17,698**	**–**	**25,646**
Trade and other payables	**–**	**4,573**	**–**	**–**	**–**	**4,573**
	–	**8,643**	**3,878**	**17,698**	**–**	**30,219**
At 31 December 2017						
Borrowings	–	3,418	3,823	3,643	16,663	27,547
Trade and other payables	–	1,366	–	–	–	1,366
	–	4,784	3,823	3,643	16,663	28,913

Management considers that the Group has adequate current assets and forecast cash from operations to manage liquidity risks arising from current and non-current liabilities.

22 Financial instruments and risk management continued

Capital management

The Group manages its capital to ensure that it remains sufficiently funded to support its business strategy and maximise shareholder value. The Group's funding requirements are met through a combination of debt and equity and adjustments are made in light of changes in economic conditions. The Group's strategy is to maintain ratios in line with covenants associated with its secured bonds.

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

The Company completed a restructuring and fundraising package on 4 April 2017 (see note 25). Management believe that the new capital structure is sustainable in the current oil price environment and, together with a carried work programme of up to $220 million, means that the Company is well positioned to pursue its strategy.

23 Share capital and share premium

On 3 April 2017, the shareholders approved the subdivision of each of the 303,305,534 ordinary shares of 10p each of the Company into one new ordinary share of 0.0001p each and one deferred share of 9.9999p each. At the Annual General Meeting of the Company on 14 June 2017, the shareholders approved a consolidation and subdivision of the Company's share capital in order to reduce the number of shares in issue to that more appropriate for the size of the Company. Following the consolidation, every 200 ordinary shares of 0.0001 pence each were consolidated into one new ordinary share of 0.02 pence each and immediately sub-divided into 10 ordinary shares of 0.002 pence. The consolidation and subdivision reduced the number of shares in issue from 2.4 billion to 121 million.

	Ordinary shares		Deferred shares*		Share capital	Share premium
	No.	Nominal value £000	No.	Nominal value £000	Nominal value £000	Value £000
Issued and fully paid						
At 1 January 2017, ordinary shares of 10p each	302,820,578	30,282	–	–	30,282	32
January 2017 SIP share issue	484,956	49	–	–	49	2
Balance prior to the restructuring	303,305,534	30,331	–	–	30,331	34
Subdivision of 10p ordinary shares into 0.0001p ordinary shares and 9.999p deferred shares	–	(30,331)	303,305,534	30,331	–	–
Issued through Kerogen Subscription Agreement	679,282,165	1			1	28,766
Issued through the Placing and Open and Ancillary Offers	400,069,644	–	–	–	–	18,003
Equitisation of secured and unsecured bonds	1,043,350,391	1	–	–	1	46,949
Transaction costs	–	–	–	–	–	(554)
Reserves transfer on equitisation of unsecured bonds	–	–	–	–		9,008
May 2017 SIP share issue	956,464	–	–	–	–	44
Total ordinary shares before subdivision and consolidation	2,426,964,198					
Subdivision and consolidation	(2,305,615,988)					
After subdivision and consolidation	121,348,210	2	303,305,534	30,331	30,333	102,250
July 2017 SIP share issue	59,352	–	–	–	–	42
October 2017 SIP share issue	73,557	–	–	–	–	50
December 2017 EBT issue	400,000	–	–	–	–	–
At 31 December 2017	121,881,119	2	303,305,534	30,331	30,333	102,342
January 2018 SIP share issue	**69,195**	**–**	**–**	**–**	**–**	**48**
April 2018 SIP share issue	**55,279**	**–**	**–**	**–**	**–**	**45**
July 2018 SIP share issue	**37,782**	**–**	**–**	**–**	**–**	**31**
October 2018 SIP share issue	**33,894**	**–**	**–**	**–**	**–**	**35**
At 31 December 2018	**122,077,269**	**2**	**303,305,534**	**30,331**	**30,333**	**102,501**

* Deferred shares were created on capital restructuring which completed in April 2017 as disclosed in note 25.

23 Share capital and share premium continued

Accordingly, the Group share capital account comprised:

	£000
Share capital account	
At 1 January 2017	30,282
Shares issued during the year	51
At 31 December 2017	30,333
Shares issued during the year	–
At 31 December 2018	**30,333**

Share premium

The share premium account arises from the Company issuing shares for consideration in excess of their nominal value less the cost of such issues. During the year, the Company issued 196,150 ordinary shares at a nominal value of 0.002p each (2017: 106,740,090 ordinary shares of 0.002p each), resulting in an increase in share premium of £0.2 million (2017: £102.3 million). No issuing costs were incurred during the year (2017: £554 thousand).

24 Other reserves

Other reserves are as follows:

	Share plan reserves £000	Treasury shares £000	Capital contributions £000	Merger reserve £000	Total £000
Balance at 1 January 2017	8,138	(1,650)	47	22,222	28,757
Share options issued under the employee share plan	1,231	–	–	–	1,231
Shares issued under the SIP	–	102	–	–	102
Forfeiture of options under the employee share plan	(85)	–	–	–	(85)
Lapse of options under the employee share plan	(11)	–	–	–	(11)
Transfers	(175)	175	–	–	–
Balance at 31 December 2017	9,098	(1,373)	47	22,222	29,994
Share options issued under the employee share plan	**1,430**	**–**	**–**	**–**	**1,430**
Shares issued under the SIP	**–**	**59**	**–**	**–**	**59**
Lapse of options under the employee share plan	**(173)**	**–**	**–**	**–**	**(173)**
Transfers	**99**	**(99)**	**–**	**–**	**–**
Balance at 31 December 2018	**10,454**	**(1,413)**	**47**	**22,222**	**31,310**

Employee share plans – Equity settled

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

	EIP Number of units	MRP Number of units	EDRP Number of units	LTIP Number of units
Outstanding at 1 January 2017	7,096,343	9,470,814	6,500,000	1,841,884
Exercisable at 1 January 2017	–	9,470,814	6,500,000	–
Exercisable after subdivision and conversion (including roundings)	354,826	473,566	325,000	92,096
Awarded during the year	1,756,923	–	–	–
Exercised during the year	(9,533)	(206,314)	–	–
Lapsed during the year	–	–	–	(1,029)
Forfeited during the year	(15,512)	–	–	(3,975)
Outstanding at 31 December 2017	2,086,704	267,252	325,000	87,092
Exercisable at 31 December 2017	2,086,704	267,252	325,000	87,092
Awarded during the year	**1,911,057**	**76,310**	**–**	**–**
Exercised during the year	**–**	**(52,371)**	**–**	**–**
Forfeited during the year	**–**	**–**	**–**	**(87,092)**
Outstanding at 31 December 2018	**3,997,761**	**291,191**	**325,000**	**–**
Exercisable at 31 December 2018	**3,997,761**	**291,191**	**325,000**	**–**

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

24 Other reserves continued

Executive Incentive Plan (EIP)

In March 2016, the Group issued 7,548,701 options under a long term incentive plan to the Executive Directors of the Company and certain other key employees of the Group which will vest, subject to meeting certain criteria, three years from grant. The options granted under the Plan take the form of a base award. The number of ordinary shares over which the options vest may be increased by a multiple of up to two times the number of ordinary shares subject to the base award, if a specified ordinary share price is met at the vesting date.

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

On the 14 June 2017 these awards were subdivided in line with the subdivision and consideration of the Group's share capital (see note 23).

In October 2017, the Group awarded 1,756,923 Ordinary shares under a long term incentive plan to the Executive Director of the Company and other key employees of the Group. The fair value of the awards is based on the Monte Carlo valuation model. The key inputs into the model were: share price as of date of grant of £0.68, a risk free interest rate of 0.54 % and an implied share price volatility 63.95 %. It was also assumed that no options would be forfeited and no dividends would be paid during the life of the options. This resulted in a fair value of EIP awards of £0.978 million.

In March 2018, the Group awarded 1,911,057 Ordinary shares under a long term incentive plan to the Executive Director of the Company and other key employees of the Group. The fair value of the awards is based on the Monte Carlo valuation model. The key inputs into the model were: share price as of date of grant of £0.76, a risk free interest rate of 0.98 % and an implied share price volatility 58.3 %. It was also assumed that no options would be forfeited and no dividends would be paid during the life of the options. This resulted in a fair value of EIP awards of £1.3 million.

The EIPs outstanding at 31 December 2018 had both a weighted average remaining contractual life and maximum term remaining of 8.4 years (2017: 9.0 years).

The total charge for the year was £1.07 million (2017: £0.48 million). Of this amount, £0.24 million (2017: £0.10 million) was capitalised and £0.83 million (2017: £0.38 million) was charged to the Income Statement.

Management Retention Plan (MRP)

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

Employees were granted 7,143,610 options in the MRP in lieu of waived options granted under the 2011 Long Term Incentive Plan (LTIP) and 2016 cash bonuses. The options designated by the Group as replacement awards were accounted for as a modification of the original scheme and were valued at grant date and the options awarded in lieu of cash bonuses were measured with reference to the fair value of the services received.

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

In March 2018, the Group awarded 76,310 Ordinary shares to the Executive Director and other key employees of the Group. The fair value of the awards is based on the fair value of the services rendered. There were also a number of share exercise during the year relating to other employees of the Company. The MRPs outstanding at 31 December 2018 had both a weighted average remaining contractual life and maximum term remaining of 5.5 years (2017: 5.9 years).

The total charge for the year was £0.07 million (2017: £nil). Of this amount, £0.03 million (2017: £nil) was capitalised or recharged to joint venture partners and £0.04 million (2017: £nil) was charged to the Income Statement.

24 Other reserves continued

Executive Director Retention Plan (EDRP)

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

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

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

The EDRPs outstanding at 31 December 2018 had both a weighted average remaining contractual life and maximum term remaining of 4.5 years (2017: 5.5 years).

The total charge for the year was £nil (2017: £nil). Of this amount, £nil (2017: £nil) was capitalised and £nil (2017: £nil) was charged to the Income Statement.

Long Term Incentive Plan 2011 (2011 LTIP)

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

There were no LTIPs awarded or exercised during the year. There were no LTIPs outstanding at 31 December 2018.

The total charge for the year was £0.05 million (2017: £0.12 million). Of this amount, £0.02 million (2017: £0.02 million) was capitalised and £0.3 million (2017: £0.10 million) was charged to the Income Statement.

Other share based payments

Share Incentive Plan (SIP)

In 2013, the Group adopted an Inland Revenue approved SIP for all employees of the Group. The scheme is a tax efficient incentive plan pursuant to which all employees are eligible to acquire up to £150 (or 10% of salary, if less) worth of IGas ordinary shares per month or £1,800 per annum. Under the SIP employees are invited to make contributions to buy partnership shares. If an employee agrees to buy partnership shares the Company currently matches the number of partnership shares bought with an award of shares (matching shares), on a one-for-one or two-for-one basis subject to the pre-defined quarterly production targets being met.

The total charge for the year was £0.15 million (2017: £0.2 million). Of this amount, £nil (2017: £0.005 million) was capitalised and £0.15 million (2017: £0.195 million) was charged to the income statement.

Treasury shares

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

During the year ended to 31 December 2018, no shares (2017: 400,000 ordinary shares of £0.00002) were issued to the Trust. In addition 52,373 ordinary shares of £0.00002 each (2017: 225,226 ordinary shares of £0.00002 each) were released from the Trust on exercise of share options by current and former employees.

24 Other reserves continued

Capital contribution

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

Merger reserve

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

25 Capital restructure

During the year ended 31 December 2016, the Company disclosed that it expected to be non-compliant with its leverage covenants under its secured bond agreement and that it also expected to breach its daily liquidity covenant in late March 2017. The Company therefore engaged in discussions with its bondholders, a strategic investor and other potential investors and stakeholders with regard to possible restructuring options in order to provide a remedy to the expected breach and achieve a capital structure that would be sustainable in the current oil price environment. In March 2017, the Company announced final terms of the restructuring and fundraising package which were subsequently approved at the meetings of the Company's secured and unsecured bondholders and at the general meeting of shareholders on 3 April 2017. In addition, the shareholders approved the subdivision of each of the 303,305,534 ordinary shares of 10p each of the Company into one new ordinary share of 0.0001p each and one deferred share of 9.9999p each.

On 4 April 2017, the Company announced that all new ordinary shares issued in accordance with the terms of the fundraising were admitted to trading and, as a result, the restructuring of the Company's secured bonds and unsecured bonds and the fundraising had become effective in accordance with their respective terms. The principal terms are set out below:

- 679,282,165 new ordinary shares were issued to Unconventional Energy Limited, an affiliate of Kerogen Capital, pursuant to a subscription agreement (including 40,030,273 new ordinary shares at nominal value pursuant to a top-up mechanism) raising £28.77 million and giving Unconventional Energy Limited an interest of 28% in the Company.
- 400,069,644 new ordinary shares were issued pursuant to a placing, open offer and ancillary subscription raising £18.04 million.
- 528,175,031 new ordinary shares were issued to holders of secured bonds who accepted voluntary equity exchange of secured bonds extinguishing $28.92 million (£23.78 million) in face value of the secured bonds.
- 202,398,542 new ordinary shares were issued to holders of secured bonds pursuant to a conditional secured debt for equity swap extinguishing a further $11.08 million (£9.11 million) in face value of the secured bonds.
- c.$49.2 million (£40.4million) in face value of secured bonds were cancelled in consideration for c.$49.2 million (£40.4 million) cash pursuant to a voluntary cash offer.
- 312,776,818 new ordinary shares were issued to holders of unsecured bonds on the conversion of all unsecured bonds into equity extinguishing $27.4 million (£22.5 million) in face value, being all of, the unsecured bonds not held by the Company.
- The Company cancelled $13.09 million (£10.7 million) in face value of the secured bonds and unsecured bonds held by the Company, being all of the unsecured bonds and secured bonds held by the Company.
- The renegotiated terms and conditions and covenants for the remaining secured bonds (total aggregate face value of c.$30.08 million) came into effect upon admission.
- The new ordinary shares were issued at a price of 4.5p per share.

A gain of £4.9 million (net of fees of £2.5 million) arising from the restructure was recognised for the year ended 31 December 2017.

26 Related party transactions

The information below sets out transactions and balances between the Group and related parties in the normal course of business for the year ended 31 December 2018.

The Director, Chief Financial Officer and the Chief Operating Officer of the Company are considered to be the only key management personnel as defined by IAS 24 – Related Party Disclosures. Transactions with key management personnel were as follows:

	Year ended 31 December 2018 £000	Year ended 31 December 2017 £000
Short-term employee benefits	**1,384**	1,574
Share plan	**717**	546
Social security costs	**197**	198
Fees	**100**	68
	2,398	2,386

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

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

27 Subsequent events

On 24 January 2019 the Group issued 45,598 Ordinary £0.00002 shares in relation to the Company's SIP scheme. The shares were issued at £0.80 resulting in share premium of £36,477.

On 11 March 2019, the Company announced a significant advancement in UK share prospectively with over 250 metres of hydrocarbon bearing shales encountered, including the upper and lower Bowland Shale, in the Springs Road 1 well.

Parent Company Financial Statements – Directors' Statement of Responsibilities

The Directors are responsible for preparing the Annual Report and Parent Company financial statements in accordance with applicable United Kingdom law and those International Financial Reporting Standards as adopted by the European Union (IFRSs).

Under Company Law the Directors must not approve the Parent Company financial statements unless they are satisfied that they present fairly the financial position of the Parent Company and its financial performance and cash flows for that period. In preparing the Parent Company financial statements the Directors are required to:

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

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

The Directors confirm that they have complied with these requirements and, having a reasonable expectation that the Parent Company has adequate resources to continue in operational existence for the foreseeable future, will continue to adopt the going concern basis in preparing the accounts.

Independent auditors' report
to the members of IGas Energy plc

Report on the audit of the parent company financial statements

Opinion

In our opinion, IGas Energy plc's parent company financial statements (the financial statements):

- Give a true and fair view of the state of the parent company's affairs as at 31 December 2018 and of its cash flows for the year then ended;
- Have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- Have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual report and accounts (the Annual Report), which comprise: the Parent Company Balance Sheet as at 31 December 2018; the Parent Company Cash Flow Statement, and the Parent Company Statement of Changes in Equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

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

Independence

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

Our audit approach

Overview

Materiality	• Overall materiality: £1.1 million (2017: £1.0 million), based on a proportion of net assets.
Audit scope	• We obtained coverage over 99% of Company's total assets and 100% of Company's consolidated total liabilities.
Key audit matters	• Carrying value of investment in subsidiaries. • Basis of going concern.

The scope of our audit

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

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

Key audit matters

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

Key audit matter	How our audit addressed the key audit matters
Carrying value of investment in subsidiaries Refer to page 40 Audit Committee Report note 2 Investment in subsidiaries. The carrying value of the Company's investments in subsidiaries were £362.7m at 31 December 2018, comprising of £136.3m of investment in subsidiaries and £226.4m of loans to group companies. These represent 89.5% of the Company's total assets. We focused on this area due to the material nature of the balance.	We have obtained management's assessment over whether the carrying value of the investments in subsidiaries is supportable. This included comparing the fair value of each entity with the carrying value of the parent company investments. Fair values were derived from a combination of the subsidiary net assets and the fair value of subsidiaries oil and gas properties based on the group impairment model. Based on the procedures performed we concur with management that, after impairment of £36.1m, the carrying value is supportable.
Basis of going concern Refer to page 40 Audit Committee Report, and page 101 note 1 (b) Accounting Policies. We focused on this area given the recent volatility in oil price and foreign exchange, and the need to ensure compliance with the terms of the secured bonds, including financial covenants. The ability of the Company and Group to continue as a going concern is dependent on Management's ability to maintain liquidity in order to repay its existing creditors and outstanding debt. Management's assessment of going concern is based on cash flow projections and business plans, each of which is dependent on management's judgement and can be influenced by management bias.	In assessing the appropriateness of the going concern assumption used in preparing the financial statements, we: • Checked the mathematical accuracy of Management's cash flow forecast and validated the opening cash position; • Validated Management's underlying cash flow projections for the Company and Group to other external and internal sources where appropriate, including recent production, oil price forecasts and comparing cost assumptions to historic actuals and underlying budgets; • Performed sensitivity analysis to assess the impact of the key assumptions underlying the forecast such as a reduction in oil price, weaker operational performance and a strengthening of the British Pound against the US Dollar, and the Company and Group's ability to take mitigating actions, if required; and • Reviewed the completeness and appropriateness of management's going concern disclosures as disclosed in the financial statements. Our conclusions on going concern are set out later in this report.

How we tailored the audit scope

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

Materiality

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

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

Overall materiality	£1.1 million (2017: £1.0 million).
How we determined it	A proportion of net assets.
Rationale for benchmark applied	We consider net assets to be one of the principal considerations of the members of the Parent Company. The overall materiality has been limited to 90% of the Group's overall materiality.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £55,000 (2017: £50,000) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Conclusions relating to going concern

ISAs (UK) require us to report to you when:

- the Directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the parent 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.

We have nothing to report in respect of the above matters.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the parent company's ability to continue as a going concern. For example, the terms on which the United Kingdom may withdraw from the European Union are not clear, and it is difficult to evaluate all of the potential implications on the company's trade, customers, suppliers and the wider economy.

Reporting on other information

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

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

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

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

Strategic Report and Directors' Report
In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 December 2018 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

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

Responsibilities for the financial statements and the audit

Responsibilities of the Directors for the financial statements
As explained more fully in the Directors' Statement of Responsibilities in Relation to the Parent Company Financial Statements set out on page 92, the Directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The Directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the 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 parent company or to cease operations, or have no realistic alternative but to do so.

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

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

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

Other required reporting

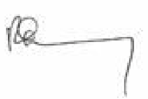
Companies Act 2006 exception reporting
Under the Companies Act 2006 we are required to report to you if, in our opinion:

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

We have no exceptions to report arising from this responsibility.

Other matter

We have reported separately on the Group financial statements of IGas Energy plc for the year ended 31 December 2018.



Richard Spilsbury
(Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
27 March 2019

Parent Company Balance Sheet
As at 31 December 2018

	Notes	31 December 2018 £000	31 December 2017 £000
ASSETS			
Non-current assets			
Investments in subsidiaries	2	**362,707**	392,275
Property, plant and equipment	3	**83**	47
		362,790	392,322
Current assets			
Trade and other receivables	4	**35,502**	30,947
Cash and cash equivalents	5	**6,806**	858
		42,308	31,805
Total assets		**405,098**	424,127
LIABILITIES			
Current liabilities			
Trade and other payables	6	**(133,187)**	(146,910)
Borrowings	8	**(2,389)**	(1,687)
Derivative financial instruments	10	**(71)**	–
		(135,647)	(148,597)
Non-current liabilities			
Borrowings	8	**(18,591)**	(19,553)
Total liabilities		**(154,238)**	(168,150)
Net assets		**250,860**	255,977
EQUITY			
Capital and reserves			
Called up share capital	11	**30,333**	30,333
Share premium account	11	**102,501**	102,342
Other reserves	12	**31,310**	29,994
Accumulated surplus		**86,716**	93,308
Total equity		**250,860**	255,977

As a Consolidated income statement is published in this Annual Report, a separate income statement for the Company is not presented within these financial statements as permitted by Section 408 of the Companies Act 2006. The Company reported a loss for the year of £0.5 million (2017: a profit of £2.5 million).

These financial statements were approved and authorised for issue by the Board on 27 March 2019 and are signed on its behalf by:

Stephen Bowler
Chief Executive Officer

Julian Tedder
Chief Financial Officer

The notes on pages 100 to 116 form an integral part of these financial statements.

Parent Company Statement of Changes in Equity
For the year ended 31 December 2018

	Called up share capital (note 11) £000	Share premium account (note 11) £000	Capital redemption reserve £000	Other reserves (note 12) £000	Accumulated (deficit)/ surplus £000	Total equity £000
Balance at 1 January 2017	30,282	32	–	28,757	99,969	159,040
Profit for the year	–	–	–	–	2,462	2,462
Employee share plans (note 12)	–	–	–	1,333	(115)	1,218
Forfeiture of LTIPs under the employee share plan (note 12)	–	–	–	(85)	–	(85)
Lapse of LTIPs under the employee share plan (note 12)	–	–	–	(11)	–	(11)
Issue of shares and conversion of debt (note 11)	51	93,302	–	–	–	93,353
Reserves transfer on equitisation of unsecured bond	–	9,008	–	–	(9,008)	–
Balance at 31 December 2017	30,333	102,342	–	29,994	93,308	256,092
Change in accounting policy (note 1)	–	–	–	–	(6,402)	(6,402)
Restated balance at 31 December 2017	30,333	102,342	–	29,994	86,906	249,575
Loss for the year	**–**	**–**	**–**	**–**	**(478)**	**(478)**
Employee share plans (note 12)	**–**	**159**	**–**	**1,489**	**115**	**1,763**
Lapse of LTIPs under the employee share plan (note 12)	**–**	**–**	**–**	**(173)**	**173**	**–**
Issue of shares (note 11)	**–**	**–**	**–**	**–**	**–**	**–**
Balance at 31 December 2018	**30,333**	**102,501**	**–**	**31,310**	**86,716**	**250,860**

The notes on pages 100 to 116 form an integral part of these financial statements.

Parent Company Cash Flow Statement
For the year ended 31 December 2018

	Note	Year ended 31 December 2018 £000	Year ended 31 December 2017 £000
Cash flows from operating activities:			
(Loss)/profit before tax		**(478)**	2,429
Depletion, depreciation and amortisation		**53**	77
Share based payment charge		**236**	159
Impairment of investments		**36,060**	17,939
Income from subsidiary undertakings		**(37,076)**	–
Unrealised loss on foreign exchange hedges		**71**	–
Finance income		**(11,384)**	(27,452)
Finance costs		**10,452**	6,389
Other non-cash items		**(1)**	(124)
Operating cash flow before working capital movements		**(2,067)**	(583)
(Increase)/decrease in trade and other receivables		**(4,555)**	8,419
Decrease in trade and other payables		**(20,888)**	(19,071)
Cash used in operating activities		**(27,510)**	(11,235)
Tax refunded		**–**	31
Net cash used in operating activities		**(27,510)**	(11,204)
Cash flows from investing activities:			
Purchase of property, plant and equipment		**(89)**	–
Interest received		**5**	10
Net cash (used in)/from investing activities		**(84)**	10
Cash flows from financing activities:			
Cash proceeds from issue of ordinary share capital	11	**70**	77
Cash proceeds from the issue of shares in capital restructuring	13	**–**	46,789
Cash paid in settlement of secured bonds	13	**–**	(39,337)
Fees related to capital restructure	13	**–**	(4,311)
Repayment and repurchase of borrowings	5	**(1,722)**	(5,423)
Dividend received from subsidiary undertakings		**37,076**	–
Interest paid	5	**(1,751)**	(5,917)
Net cash from/(used in) financing activities		**33,673**	(8,122)
Net increase/(decrease) in cash and cash equivalents in the year		**6,079**	(19,316)
Net foreign exchange difference		**(131)**	(1,031)
Cash and cash equivalents at the beginning of the year		**858**	21,205
Cash and cash equivalents at the end of the year	5	**6,806**	858

The notes on pages 100 to 116 form an integral part of these financial statements.

1 Accounting policies

(a) Basis of preparation of financial statements

The Parent Company financial statements of IGas Energy plc (the Company) have been prepared in accordance with International Financial Reporting Standards, adopted for use by the European Union (IFRSs) as they apply to the Company for the year ended 31 December 2018, and with the Companies Act 2006. The financial statements were approved by the Board and authorised for issue on 27 March 2019. IGas Energy plc is a public limited company incorporated, registered in England and Wales and is listed on the Alternative Investment Market (AIM).

The Company's financial statements are presented in UK pound sterling and all values are rounded to the nearest thousand (£000) except when otherwise indicated.

As a Consolidated income statement is published in this Annual Report, a separate income statement for the Company is not presented within these financial statements as permitted by Section 408 of the Companies Act 2006. The Company reported a loss for the year of £0.5 million (2017: a profit of £2.5 million).

New and amended standards and interpretations

During the year, the Company adopted the following new and amended IFRSs for the first time for their reporting period commencing 1 January 2018:

IFRS 2	Classification and measurement of share-based payment transactions – Amendment to IFRS 2
IFRS 15	Revenue from Contracts with Customers
IFRS 9	Financial Instruments

The Parent Company has adopted IFRS 15 from 1 January 2018, which resulted in changes in accounting policies; however no adjustments were required to the amounts recognised in the financial statements.

IFRS 9 replaces the provisions of IAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting. The adoption of IFRS 9 from 1 January 2018 resulted in changes in accounting policies and certain retrospective adjustments as disclosed below in note 10.

Accounting policies applied until 31 December 2017

The Parent Company has applied IFRS 9 retrospectively, but has elected not to restate the comparative information. As a result, the comparative information provided continues to be accounted for in accordance with the Parent Company's previous accounting policy.

Changes in accounting policies

As a result of the changes in the Company's accounting policies, prior year financial statements had to be restated. As explained below, IFRS 9 was adopted without restating comparative information. The reclassifications and adjustments arising from the new impairment rules are therefore not reflected in the restated balance sheet as at 31 December 2017, but are recognized in the opening balance sheet on 1 January 2018.

The following table shows the adjustments recognized for each individual line item. Line items that were not affected by the changes have not been included. As a result, the subtotals and totals disclosed cannot be recalculated from the numbers provided. The adjustments are explained in more detail by standard below.

Balance Sheet (extract)	31 December 2017 £000	IFRS 9 £000	1 January 2018 £000
Non-current assets			
Loans to Group companies (note 2)	221,381	(6,402)	214,979
Total assets	424,127	(6,402)	417,725
Reserves			
Retained earnings	93,308	(6,402)	86,906
Total equity	255,977	(6,402)	249,575

IFRS 9 replaces provisions of IAS 39 that relate to the recognition , classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting.

1 Accounting policies continued

(a) Basis of preparation of financial statements continued

The total impact on the Parent Company's retained earnings as at 1 January 2018 is as follows:

	£000
Closing retained earnings 31 December 2017 – IAS 39	93,308
Increase in provision for expected credit losses	(6,402)
Adjustment to retained earnings from adoption of IFRS 9 on 1 January	(6,402)
Opening retained earnings 1 January 2018 – IFRS 9	**86,906**

New standards and interpretations not yet adopted

Certain new standards, interpretations and amendments to existing standards have been published that are mandatory only for the Company's accounting periods beginning on or after 1 January 2019 or later periods and which the Company has not adopted early. Those that may be applicable to the Company in future are as follows:

IFRS 16	Leases	1 January 2019*
IFRIC Interpretation 23	Uncertainty over Income Tax Treatments	1 January 2019*
Amendments to IAS 28	Long-term interest in Associates and Joint Ventures	1 January 2019*

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

Other than IFRS 16, there are no other standards that are not yet effective and that would be expected to have a material impact on the entity in the current or future reporting periods. The Company's assessment of the impact of IFRS 16 is set out below:

Nature of change, impact and mandatory application

IFRS 16 was issued in January 2016. It will result in almost all leases being recognised on the balance sheet by lessees, as the distinction between operating and finance leases is removed. Under the new standard, an asset being the right to use the leased asset, and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases. The Company has reviewed the existing population of leases and any new leases in light of the new lease accounting rules in IFRS 16. There is no significant impact on the Company. See impact on the Group in the Group accounting policies.

(b) Going concern

The Group and Company continue to closely monitor and manage its liquidity risks including the continued use of both oil and interest rate derivatives. Cash forecasts for the Group and Company are regularly produced based on, inter alia, the Group and Company production and expenditure forecasts, management's best estimate of future oil prices, management's best estimate of foreign exchange rates and the Group and Company's borrowings. Sensitivities are run to reflect different scenarios including, but not limited to, possible further reductions in commodity prices, strengthening of sterling and reductions in forecast oil and gas production rates. The Group and Company's base case working capital forecasts show that the Group and Company will have sufficient financial headroom for the 12 months from the date of approval of the financial statements. To manage the impact of the most extreme downside scenarios modelled, management would have to take action, including delaying capital expenditure in order to remain within the Company's banking facilities. All such mitigating actions are within management's control.

Therefore, after making appropriate enquiries and considering the risks described above, the Directors have a reasonable expectation that the Group and Company have adequate resources to continue in existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in the preparation of the financial statements.

1 Accounting policies continued

(c) Significant accounting judgements and estimates

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities are discussed below.

Recoverable value of investment in subsidiaries

The Company evaluates investments in subsidiaries for indicators of impairment as described in (d) below. Any impairment test, where required, involves estimates and associated assumptions related to matters (when appropriate), such as recoverable reserves; production profiles; forward gas and electricity prices; development, operational and offtake costs; nature of land access agreements and planning permissions; application of taxes, and other matters. Where the final outcome or revised estimates related to such matters differ from the estimates used in any earlier impairment reviews, the results of such differences, to the extent that they actually affected any impairment provisions, are accounted for when such revisions are made. Details of the Company's investments are disclosed in note 2.

Functional currency

The determination of a company's functional currency often requires significant judgement where the primary economic environment in which it operates may not be clear. The Company's financial statements are presented in UK pound sterling, the primary economic environment of the Company.

(d) Non-current assets

Investments in subsidiaries

Investments in Group companies held as non-current assets are held at cost less provision for impairment unless the investments were acquired in exchange for the issue or part issue of shares in the Company, when they are initially recorded in the Company's balance sheet at the fair value of the shares issued together with the fair value of any consideration paid, including costs of acquisition less any provision for impairment.

The Company's investments in Group companies held as non-current assets are assessed for impairment whenever events or changes in circumstances indicate that the carrying value of an investment may not be recoverable, when impairment is calculated on the basis as set out below. Any impairment is charged to the income statement.

Loans to Group companies are stated at amortised cost.

Impairment

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

- By comparing any amounts carried as investments held as non-current assets with the recoverable amount.
- The recoverable amount is the higher of an asset's fair value less costs to sell and its value in use. The Company generally assesses value in use using the estimated future cash flows discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or cash-generating unit.

Where there has been a charge for impairment in an earlier period that charge will be reversed in a later period where there has been a change in circumstances to the extent that the recoverable amount is higher than the net book value at the time. In reversing impairment losses, the carrying amount of the investment will be increased to the lower of its original carrying value and the carrying value that would have been determined had no impairment loss been recognised in prior periods.

Property, plant and equipment

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

Buildings	– over five years on a straight line basis
Fixtures, fittings and equipment	– between three and five years on a straight line basis
Motor vehicles	– over four years on a straight line basis

1 Accounting policies continued

(e) Financial Instruments

Classification

From 1 January 2018, the Parent Company classifies its financial assets in the following measurement categories:

- Those to be measured subsequently at fair value (either through OCI or through profit or loss); and
- Those to be measured at amortised cost.

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows. For assets measured at fair value, gains and losses will be recorded either in profit or loss or in OCI. For investments in equity instruments that are not held for trading, this will depend on whether the Parent Company has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income (FVOCI).

The Parent Company reclassifies debt investments when and only when its business model for managing those assets changes.

Recognition and derecognition

Regular way purchases and sales of financial assets are recognised on trade date (that is, the date on which the Parent Company commits to purchase or sell the asset). Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Parent Company has transferred substantially all the risks and rewards of ownership.

Measurement

At initial recognition, the Parent Company measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss (FVPL), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in profit or loss.

The Parent Company holds financial assets at amortised costs being trade and other receivables, cash and cash equivalents and restricted cash and derivative financial instruments used for hedging.

The Parent Company also hold financial liabilities at amortised cost being trade and other payables, borrowings, other creditors and derivative financial instruments used for hedging.

The Parent Company classifies its financial assets at amortised cost only if both of the following criteria are met:

- The asset is held within a business model whose objective is to collect the contractual cash flows; and
- The contractual terms give rise to cash flows that are solely payments of principal and interest.

Cash and cash equivalents

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

Trade and other receivables

Trade receivables are amounts due from customers for goods sold or services performed in the ordinary course of business. They are generally due for settlement within 30 days and are therefore all classified as current. Trade receivables are initially recognised at the amount of consideration that is unconditional, unless they contain significant financing components, in which case they are recognised at fair value. Details about the Group's impairment policy and the calculation of loss allowance is provided in the Impairment accounting policy below.

Trade and other payables

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

Impairment of financial assets

At the end of each reporting period, a provision is made if there is objective evidence that a financial asset or group of financial assets was impaired. A financial asset or a group of financial assets was impaired and impairment loss is incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a loss event), and that loss event (or events) had an impact on the estimated future cash flows of the financial asset or group of financial assets that could be reliably estimated.

1 Accounting policies continued

(e) Financial Instruments continued

Assets carried at amortised cost

For loans and receivables, the amount of loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that had not been incurred), discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of loss is recognised in the income statement.

If in the subsequent period, the amount of loss decreased and the decrease is related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the income statement.

Warrants

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

Borrowings

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

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

Borrowing costs

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

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

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

(f) Leases

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

Operating leases

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

(g) Taxation

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

Current income tax assets and liabilities are measured at the amount expected to be recovered or paid to the tax authorities. Taxable profit/(loss) differs from the profit/(loss) before taxation as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

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

1 Accounting policies continued

(g) Taxation continued

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

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

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

(h) Share based payments

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

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

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

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

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

Charges corresponding to the amounts recognised in equity are accounted as a cost against the profit and loss which will usually be to the income statement unless the services rendered qualify for capitalisation as a non-current asset. Costs may be capitalised within non-current assets in the event of services being rendered in connection with an acquisition or intangible exploration and evaluation assets or property, plant and equipment. The comparative other reserves and accumulated (deficit)/surplus were corrected by increasing/decreasing them respectively by £115,000 in relation to share based payments.

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

(i) Equity

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

(j) Foreign currency

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

2 Investments in subsidiaries

Investments in subsidiaries comprises:

Parent Company	Investment in Group Companies £000	Loans to Group companies* £000	31 December 2018 Total £000	Investment in Group Companies £000	Loans to Group companies £000	31 December 2017 Total £000
At 1 January	**170,894**	**221,381**	**392,275**	187,772	210,002	397,774
Additions	**1,515**	**11,379**	**12,894**	1,061	11,379	12,440
Impairments	**(36,060)**	**–**	**(36,060)**	(17,939)	–	(17,939)
Credit loss allowance	**–**	**(6,402)***	**(6,402)**	–	–	–
At 31 December	**136,349**	**226,358**	**362,707**	170,894	221,381	392,275

* Refer note 10 for credit risk.

Loans to Group companies are repayable on demand and bear interest at either 1.2% above LIBOR or at a fixed rate of 12%.

Additions represent investment of £1.5 million relating to employee share-based payment costs under IFRS 2 and £11.4 million interest accrued on existing loans to group companies.

At 31 December 2018, the Company had investments in the following 100 per cent owned subsidiaries:

Name of company	Principal activity and Country of incorporation	Registered office address
Subsidiaries held by Company:		
Dart Energy Pty Ltd	Gas exploration, Australia	C/O Pwc Level 23, 480 Queen Street, Brisbane QLD 4000
Island Gas Limited	Oil exploration, evaluation, production and marketing, England	7 Down Street, London, W1J 7AJ
Island Gas Operations Limited	Electricity generation, England	7 Down Street, London, W1J 7AJ
IGas Energy Enterprise Limited	Oil and gas exploration, development and production, England	7 Down Street, London, W1J 7AJ
IGas Exploration UK Limited	Dormant, England	Interpark House, 7 Down Street, London, W1J 7AJ
Star Energy Group Limited	Service company, England	7 Down Street, London, W1J 7AJ
Star Energy Limited	Service company, England	7 Down Street, London, W1J 7AJ
Star Energy Weald Basin Limited	Oil and gas processing, England	7 Down Street, London, W1J 7AJ
Star Energy Oil and Gas Limited	Dormant, England	7 Down Street, London, W1J 7AJ
Subsidiaries held through subsidiaries:		
Island Gas (Singleton) Limited	Oil and gas production and marketing, England	7 Down Street, London, W1J 7AJ
Dart Energy (Europe) Limited	Investment holding, Scotland	C/O Womble Bond Dickinson (UK) Llp, Level 6, 124-125 Princess Street, Edinburgh, EH2 4AD
Star Energy (East Midlands) Limited	Dormant, England	7 Down Street, London, W1J 7AJ
Dart Energy (East England) Limited	Shale gas exploration, England	7 Down Street, London, W1J 7AJ
Dart Energy (West England) Limited	Shale gas exploration, England	7 Down Street, London, W1J 7AJ
IGas Energy Development Limited	Oil and gas exploration, development and production, England	7 Down Street, London, W1J 7AJ
IGas Energy Production Limited	Oil and gas exploration, development and production, Scotland	C/O Womble Bond Dickinson (UK) Llp, Level 6, 124-125 Princess Street, Edinburgh, EH2 4AD
Dart Energy (Carbon Storage) Limited	Dormant, Scotland	C/O Womble Bond Dickinson (UK) Llp, Level 6, 124-125 Princess Street, Edinburgh, EH2 4AD
Dart Energy (Lothian) Limited	Dormant, Scotland	C/O Womble Bond Dickinson (UK) Llp, Level 6, 124-125 Princess Street, Edinburgh, EH2 4AD
Greenpark Energy Transportation Limited	Dormant, England	7 Down Street, London, W1J 7AJ
Apollo Gas Pty Limited	Dormant, Australia	C/O Pwc Level 23, 480 Queen Street, Brisbane QLD 4000
Dart Energy (Bruxner) Pty Limited	Investment holding, Australia	C/O Pwc Level 23, 480 Queen Street, Brisbane QLD 4000
Dart Energy (India) Pty Limited	Investment holding, Australia	C/O Pwc Level 23, 480 Queen Street, Brisbane QLD 4000
Dart Energy SPV No.1 Pty Limited	Dormant, Australia	C/O Pwc Level 23, 480 Queen Street, Brisbane QLD 4000

The Company's investments in subsidiaries were reviewed for indicators of impairments as at 31 December 2018. Impairments of £36.1 million are recorded against the investments which are not supported by the subsidiaries underlying net asset values.

2 Investments in subsidiaries continued

Name of company	Principal activity and Country of incorporation	Registered office address
Dart Energy SPV No.2 Pty Limited	Dormant, Australia	C/O Pwc Level 23, 480 Queen Street, Brisbane QLD 4000
Dart Energy (China) Pty Limited	Dormant, Australia	C/O Pwc Level 23, 480 Queen Street, Brisbane QLD 4000
Dart Energy (Overseas) Pty Limited	Dormant, Australia	C/O Pwc Level 23, 480 Queen Street, Brisbane QLD 4000
Dart Energy Global CBM Pty Limited	Dormant, Australia	C/O Pwc Level 23, 480 Queen Street, Brisbane QLD 4000
Dart Energy India Services Pvt Limited	Service company, India	804-805, 8th Floor, Tower B, Global Business Park, M.G Road, Gurugram, Harvana
Dart Energy International Limited	Investment holding, Singapore	80 Robinson Road, #02-00, Singapore 068898
Dart Energy (Europe) Pte Limited	Investment holding, Singapore	80 Robinson Road, #02-00, Singapore 068898
Dart Energy (China) Holdings Pte Limited	Investment holding – dormant, Singapore	80 Robinson Road, #02-00, Singapore 068898
Dart Energy (India) Pte Limited	Investment holding – dormant, Singapore	80 Robinson Road, #02-00, Singapore 068898
Dart Energy (ST) Pte Limited	Investment holding, Singapore	80 Robinson Road, #02-00, Singapore 068898
Dart Energy (AS) Pte Limited	Investment holding, Singapore	80 Robinson Road, #02-00, Singapore 068898
Dart Energy (Sangatta West) Pte	Investment holding, Singapore	80 Robinson Road, #02-00, Singapore 068898
Dart Energy (Dajing) Pte Limited	Investment holding – dormant, Singapore	80 Robinson Road, #02-00, Singapore 068898
Dart Energy (Vietnam) Holdings Pte Limited	Investment holding – dormant, Singapore	80 Robinson Road, #02-00, Singapore 068898
Dart Energy (India) Holdings Pte Limited	Dormant, Singapore	80 Robinson Road, #02-00, Singapore 068898
Dart Energy Asia Holdings Pte Limited	Dormant, Singapore	80 Robinson Road, #02-00, Singapore 068898
Dart Energy (Hanoi Basin CBM) Pte Limited	Dormant, Singapore	80 Robinson Road, #02-00, Singapore 068898
Dart Energy India (CMM) Pte Limited	Dormant, Singapore	80 Robinson Road, #02-00, Singapore 068898
Dart Energy (CIL) Pte Limited	Dormant, Singapore	80 Robinson Road, #02-00, Singapore 068898
Dart Energy (MG) Pte Limited	Dormant, Singapore	80 Robinson Road, #02-00, Singapore 068898

The Company's investments in subsidiaries were reviewed for indicators of impairment as at 31 December 2018.

3 Property, plant and equipment

	31 December 2018				31 December 2017			
	Buildings £000	**Fixtures, fittings and equipment £000**	**Motor vehicles £000**	**Total £000**	Buildings £000	Fixtures, fittings and equipment £000	Motor vehicles £000	Total £000
Cost								
At 1 January	**375**	**139**	**20**	**534**	375	139	20	534
Additions	**89**	**–**	**–**	**89**	–	–	–	–
Disposals	**–**	**(43)**	**–**	**(43)**	–	–	–	–
At 31 December	**464**	**96**	**20**	**580**	375	139	20	534
Accumulated depreciation and Impairment								
At 1 January	**331**	**136**	**20**	**487**	256	134	20	410
Charge for the year	**53**	**–**	**–**	**53**	75	2	–	77
Disposals	**–**	**(43)**	**–**	**(43)**				
At 31 December	**384**	**93**	**20**	**497**	331	136	20	487
NBV at 31 December	**80**	**3**	**–**	**83**	44	3	–	47

4 Trade and other receivables

	31 December 2018 £000	31 December 2017 £000
Amounts falling due within one year:		
VAT recoverable	**2**	39
Other debtors	**8**	36
Amounts due from subsidiary undertakings	**35,429**	30,718
Prepayments	**63**	154
	35,502	30,947

Amounts due from subsidiary undertakings are unsecured, interest free and payment terms are as mutually agreed between the Group's companies with no expected credit loss.

Due to the short-term natures of the current receivables, their carrying amount is considered to be the same as their fair value.

5 Cash and cash equivalents

	31 December 2018 £000	31 December 2017 £000
Cash at bank and in hand	**6,806**	858

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

Net debt reconciliation

	31 December 2018 £000	31 December 2017 £000
Cash and cash equivalents	**6,806**	858
Borrowings	**(20,980)**	(21,240)
Net debt	**(14,174)**	(20,382)
Borrowings – capitalised fees	**(518)**	(686)
Net debt excluding capitalised fees	**(14,692)**	(21,068)

	31 December 2018			31 December 2017		
	Cash and cash equivalents £000	Borrowings £000	Total £000	Cash and cash equivalents £000	Borrowings £000	Total £000
At 1 January	**858**	**(21,240)**	**(20,382)**	21,205	(124,579)	(103,374)
Capital restructuring	**–**	**–**	**–**	3,140	90,025	93,165
Repayment and repurchase of borrowings	**(1,722)**	**1,722**	**–**	(5,423)	5,423	–
Interest paid	**(1,751)**		**(1,751)**	(5,917)	5,917	–
Foreign exchange adjustments	**(131)**	**(1,238)**	**(1,369)**	(1,031)	2,369	1,338
Other cash flows	**9,552**	**–**	**9,552**	(11,116)	–	(11,116)
Other non-cash movements	**–**	**(224)**	**(224)**	–	(395)	(395)
At 31 December	**6,806**	**(20,980)**	**(14,174)**	858	(21,240)	(20,382)

6 Trade and other payables

	31 December 2018 £000	31 December 2017 £000
Trade creditors	**155**	274
Taxation and social security	**54**	51
Amounts due to subsidiary undertakings	**132,081**	145,751
Accruals and other creditors	**897**	834
	133,187	146,910

Amounts due to subsidiary undertakings are unsecured, interest free and payment terms are as mutually agreed between the Group's companies.

The carrying value of each of the Company's financial liabilities being trade creditors is considered to be a reasonable approximation of its fair value. All trade creditors are payable within one to two months and no creditor has been outstanding for longer than three months (2017: no longer than three months).

7 Taxation

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

	Year ended 31 December 2018 £000	Year ended 31 December 2017 £000
Excess management expenses	**19,134**	17,615
Non-trade loan relationship debits	**47,905**	47,968

8 Borrowings

Borrowings are measured at amortised cost in accordance with IAS 39.

	31 December 2018			31 December 2017		
	Within 1 year £000	Greater than 1 year £000	Total £000	Within 1 year £000	Greater than 1 year £000	Total £000
Bonds – secured	**2,389**	**18,591**	**20,980**	1,687	19,553	21,240

In 2013, the Company and Norsk Tillitsmann (Bond Trustee) entered into a Bond Agreement for the Company to issue up to $165.0 million secured bonds and up to $30.0 million unsecured bonds (issued at 96% of par). These bonds were subsequently listed on Oslo Bors and the Alternative bond market in Oslo. Both secured and unsecured bonds carried a coupon of 10% per annum (where interest was payable semi-annually in arrears). The secured bonds were amortised semi-annually at 2.5% of the initial loan amount. Final maturity on the secured notes was on 22 March 2018 and on the unsecured notes was 11 December 2018.

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

9 Commitments

At the balance sheet date the Company had outstanding commitments for future minimum lease payments under non-cancellable operating leases as follows:

Operating lease commitments:

	31 December 2018 £000	31 December 2017 £000
– expiring within 1 year	**390**	1,273
– expiring within 2 to 5 years	**873**	1,468
– expiring after 5 years	**–**	867
Total	**1,263**	3,608

10 Financial instruments and risk management

Fair values

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

	Carrying amount		Fair value	
	31 December 2018 £000	31 December 2017 £000	31 December 2018 £000	31 December 2017 £000
Financial liabilities				
Amortised cost				
Borrowings[1]	**20,980**	21,240	20,875	21,452

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

Fair value hierarchy

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

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

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

The financial assets and liabilities measured at fair value are categorised into the fair value hierarchy as at the reporting dates as follows:

	31 December 2018 £000	31 December 2017 £000
Financial liabilities: Level 2		
Derivative financial instruments – foreign exchange hedge	**71**	–

10 Financial instruments and risk management continued

Financial risk management

The Company's principal financial liabilities comprise borrowings, foreign exchange hedges and trade and other payables, including amounts due to subsidiary undertakings. The main purpose of these financial liabilities is to finance the Company's subsidiary operations and to fund acquisitions. The Company has trade and other receivables, and cash and cash equivalents that are derived directly from its operations and restricted cash.

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

- Market risk including interest rate, and foreign currency risks;
- Credit risk ; and
- Liquidity risk.

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

Market risk

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

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

Interest rate risk

The Company's exposure to the risk of changes in market interest rates relates primarily to the Company's loans with related parties. The Company currently has all of its external borrowings at fixed rates of interest.

The following table summarises the impact on profit before tax for changes in interest rates on the fair value of the loans to related parties.

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

	Increase/(decrease) in profit before tax for the year ended and to equity as at	
	31 December 2018 £000	31 December 2017 £000
50 basis point increase in LIBOR	**388**	388
50 basis point decrease in LIBOR	**(388)**	(388)

Foreign currency risk

The Company has transactional currency exposures. Such exposure arises from purchases in currencies other than the UK pounds sterling, the functional currency of the Company. The Company's borrowings are also denominated in US dollars.

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

10 Financial instruments and risk management continued

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

	Increase/(decrease) in profit before tax for the year ended and to equity as at 31 December 2018 £000	31 December 2017 £000
10% strengthening of the pound against the US dollar	**2,004**	2,170
10% weakening of the pound against the US dollar	**(2,004)**	(2,170)

Credit risk

With respect to credit risk arising from the financial assets of the Company, which comprise cash and cash equivalents and amounts due from subsidiary undertakings, the Company's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments. The Company limits its counterparty credit risk on cash and cash equivalents by dealing only with financial institutions with credit ratings of at least A or equivalent other than if the UK government is a majority shareholder. £6.8 million (2017: £0.1 million) of cash and cash equivalents were held with two institutions.

The loans to subsidiaries are considered to have low credit risk, and the loss allowance recognised during the period was therefore limited to 12 months expected losses. Management consider 'low credit risk' to be when they have a low risk of default and the issuer has a strong capacity to meet its contractual cash flow obligations in the near term.

The loss allowance for the loan to subsidiary as at 31 December 2017 reconciles to the opening loss allowance on 1 January 2018 and to the closing loss allowance as at 31 December 2018 as follows:

	Loan to subsidiary £000
Closing loss allowance as at 31 December 2017 (calculated under IAS 39)	–
Amounts restated through opening retained earnings	6,402
Loss allowance as at 1 January 2018 and 31 December 2018 (calculated under IFRS 9)	6,402

Liquidity risk

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

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

	On demand £000	<1 year £000	1–2 years £000	2–3 years £000	>3 years £000	Total £000
At 31 December 2018						
Borrowings	**–**	**4,070**	**3,878**	**17,698**	**–**	**25,646**
Trade and other payables	**–**	**155**	**–**	**–**	**–**	**155**
	–	**4,225**	**3,878**	**17,698**	**–**	**25,801**
At 31 December 2017						
Borrowings	–	3,418	3,823	3,643	16,663	27,547
Trade and other payables	–	274	–	–	–	274
	–	3,692	3,823	3,643	16,663	27,821

Management considers that the Company has adequate current assets and forecast cash from operations to manage liquidity risks arising from current liabilities and non-current liabilities.

10 Financial instruments and risk management continued

Capital management

The Company manages its capital to ensure that it remains sufficiently funded to support its business strategy and maximise shareholder value. The Company's funding needs are met through a combination of debt and adjustments made in light of changes in economic conditions. The Company's strategy is to maintain ratios in line with covenants associated with the issued bonds.

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

The Company completed a restructuring and fundraising package on 4 April 2017 (see note 13). Management believe that the new capital structure will be sustainable in the current oil price environment and, together with a carried work programme of up to $220 million, means that the Company is well positioned to pursue its strategy.

11 Share capital and share premium

On 3 April 2017, the shareholders approved the subdivision of each of the 303,305,534 ordinary shares of 10p each of the Company into one new ordinary share of 0.0001p each and one deferred share of 9.9999p each. At the Annual General Meeting of the Company on 14 June 2017, the shareholders approved a consolidation and subdivision of the Company's share capital in order to reduce the number of shares in issue to that more appropriate for the size of the Company. Following the consolidation, every 200 ordinary shares of 0.0001 pence each were consolidated into one new ordinary share of 0.02 pence each and immediately sub-divided into 10 ordinary shares of 0.002 pence. The consolidation and subdivision reduced the number of shares in issue from 2.4 billion to 121 million.

	Ordinary shares		Deferred shares*		Share capital	Share premium
	No.	Nominal value £000	No.	Nominal value £000	Nominal value £000	Value £000
Issued and fully paid						
At 1 January 2017, ordinary shares of 10p each	302,820,578	30,282	–	–	30,282	32
January 2017 SIP share issue	484,956	49	–	–	49	2
Balance prior to the restructuring	303,305,534	30,331	–	–	30,331	34
Subdivision of 10p ordinary shares into 0.0001p ordinary shares and 9.999p deferred shares	–	(30,331)	303,305,534	30,331	–	–
Issued through Kerogen Subscription Agreement	679,282,165	1			1	28,766
Issued through the Placing and Open and Ancillary Offers	400,069,644	–	–	–	–	18,003
Equitisation of secured and unsecured bonds	1,043,350,391	1	–	–	1	46,949
Transaction costs	–	–	–	–	–	(554)
Reserves transfer on equitisation of unsecured bonds	–	–	–	–		9,008
May 2017 SIP share issue	956,464	–	–	–	–	44
Total ordinary shares before subdivision and consolidation	2,426,964,198					
Subdivision and consolidation	(2,305,615,988)					
After subdivision and consolidation	121,348,210	2	303,305,534	30,331	30,333	102,250
July 2017 SIP share issue	59,352	–	–	–	–	42
October 2017 SIP share issue	73,557	–	–	–	–	50
December 2017 EBT issue	400,000	–	–	–	–	–
At 31 December 2017	121,881,119	2	303,305,534	30,331	30,333	102,342
January 2018 SIP share issue	**69,195**	**–**	**–**	**–**	**–**	**48**
April 2018 SIP share issue	**55,279**	**–**	**–**	**–**	**–**	**45**
July 2018 SIP share issue	**37,782**	**–**	**–**	**–**	**–**	**31**
October 2018 SIP share issue	**33,894**	**–**	**–**	**–**	**–**	**35**
At 31 December 2018	**122,077,269**	**2**	**303,305,534**	**30,331**	**30,333**	**102,501**

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

11 Share capital and share premium continued

Accordingly, the Group share capital account comprised:

	£000
Share capital account	
At 1 January 2017	30,282
Shares issued during the year	51
At 31 December 2017	30,333
Shares issued during the year	–
At 31 December 2018	**30,333**

Share premium

The share premium account arises from the Company issuing shares for consideration in excess of their nominal value less the cost of such issues. During the year, the Company issued 196,150 ordinary shares at a nominal value of 0.002p each (2017: 106,740,090 ordinary shares of 0.002p each). No issuing costs were incurred during the year (2017: £554 thousand).

12 Other reserves

Other reserves are as follows:

	Share plan reserves £000	Treasury shares £000	Capital contributions £000	Merger reserve £000	Total £000
At 1 January 2017	8,138	(1,650)	47	22,222	28,757
Employee share plans – cost under IFRS 2	1,231	–	–	–	1,231
Employee share plans – shares issued under the SIP	–	102	–	–	102
Forfeiture of LTIPs under the employee share plan	(85)	–	–	–	(85)
Lapse of LTIPs under the employee share plan	(11)	–	–	–	(11)
Transfers	(175)	175	–	–	–
At 31 December 2017	9,098	(1,373)	47	22,222	29,994
Employee share plans – cost under IFRS 2	**1,430**	**–**	**–**	**–**	**1,430**
Employee share plans – shares issued under the SIP	**–**	**59**	**–**	**–**	**59**
Lapse of LTIPs under the employee share plan	**(173)**	**–**	**–**	**–**	**(173)**
Transfers	**99**	**(99)**	**–**	**–**	**–**
At 31 December 2018	**10,454**	**(1,413)**	**47**	**22,222**	**31,310**

Employee share plans – Equity settled

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

	EIP Number of units	MRP Number of units	EDRP Number of units	LTIP Number of units
Outstanding at 1 January 2017	7,096,343	9,470,814	6,500,000	1,841,884
Exercisable at 1 January 2017	–	9,470,814	6,500,000	–
Exercisable after subdivision and conversion (including roundings)	354,826	473,566	325,000	92,096
Awarded during the year	1,756,923	–	–	–
Exercised during the year	(9,533)	(206,314)	–	–
Lapsed during the year	–	–	–	(1,029)
Forfeited during the year	(15,512)	–	–	(3,971)
Outstanding at 31 December 2017	2,086,704	267,252	325,000	87,096
Exercisable at 31 December 2017	2,086,704	267,252	325,000	87,096
Awarded during the year	**1,911,057**	**76,310**	**–**	**–**
Exercised during the year	**–**	**(52,371)**	**–**	**–**
Forfeited during the year	**–**	**–**	**–**	**(87,092)**
Outstanding at 31 December 2018	**3,997,761**	**291,191**	**325,000**	**–**
Exercisable at 31 December 2018	**3,997,761**	**291,191**	**325,000**	**–**

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

Detail disclosure of each employee share plan scheme is in the Group consolidated accounts note 24.

12 Other reserves continued

Executive Incentive Plan (EIP)

The total charge for the year was £0.12 million (2017: £0.05 million). Of this amount, £nil (2017: £nil) was capitalised and £0.12 million (2017: £0.05 million) was charged to the Income Statement.

Management Retention Plan (MRP)

The total charge for the year was £0.01 million (2017: £nil). Of this amount, £nil (2017: £nil) was capitalised or recharged to joint venture partners and £0.01 million (2017: £nil) was charged to the Income Statement.

Executive Director Retention Plan (EDRP)

The total charge for the year was £nil (2017: £nil). Of this amount, £nil (2017: £nil) was capitalised and £nil (2017: £nil) was charged to the Income Statement.

Long Term Incentive Plan 2011 (2011 LTIP)

The total charge for the year was £0.01 million (2017: £0.01 million). Of this amount, £nil (2017: £nil) was capitalised and £0.01 million (2017: £0.01 million) was charged to the Income Statement.

Other share based payments

Detail disclosure of other share based payments is in the Group consolidated accounts note 24.

Share Incentive Plan (SIP)

The total charge for the year was £nil (2017: £nil). Of this amount, £nil (2017: £nil) was capitalised and £nil (2017: £nil) was charged to the Income Statement.

Merger reserve

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

13 Capital restructure

During the year ended 31 December 2016, the Company disclosed that it expected to be non-compliant with its leverage covenants under its secured bond agreement and that it also expected to breach its daily liquidity covenant in late March 2017. The Company therefore engaged in discussions with its bondholders, a strategic investor and other potential investors and stakeholders with regard to possible restructuring options in order to provide a remedy to the expected breach and achieve a capital structure that would be sustainable in the current oil price environment. In March 2017, the Company announced final terms of the restructuring and fundraising package which were subsequently approved at the meetings of the Company's secured and unsecured bondholders and at the general meeting of shareholders on 3 April 2017. In addition, the shareholders approved the subdivision of each of the 303,305,534 ordinary shares of 10p each of the Company into one new ordinary share of 0.0001p each and one deferred share of 9.9999p each.

On 4 April 2017, the Company announced that all new ordinary shares issued in accordance with the terms of the fundraising were admitted to trading and, as a result, the restructuring of the Company's secured bonds and unsecured bonds and the fundraising had become effective in accordance with their respective terms. The principal terms are set out below:

- 679,282,165 new ordinary shares were issued to Unconventional Energy Limited, an affiliate of Kerogen Capital, pursuant to a subscription agreement (including 40,030,273 new ordinary shares at nominal value pursuant to a top-up mechanism) raising £28.77 million and giving Unconventional Energy Limited an interest of 28% in the Company.
- 400,069,644 new ordinary shares were issued pursuant to a placing, open offer and ancillary subscription raising £18.04 million.
- 528,175,031 new ordinary shares were issued to holders of secured bonds who accepted voluntary equity exchange of secured bonds extinguishing $28.92 million (£23.78 million) in face value of the secured bonds.
- 202,398,542 new ordinary shares were issued to holders of secured bonds pursuant to a conditional secured debt for equity swap extinguishing a further $11.08 million (£9.11 million) in face value of the secured bonds.
- c.$49.2 million (£40.4million) in face value of secured bonds were cancelled in consideration for c.$49.2 million (£40.4 million) cash pursuant to a voluntary cash offer.
- 312,776,818 new ordinary shares were issued to holders of unsecured bonds on the conversion of all unsecured bonds into equity extinguishing $27.4 million (£22.5 million) in face value, being all of, the unsecured bonds not held by the Company.
- The Company cancelled $13.09 million (£10.7 million) in face value of the secured bonds and unsecured bonds held by the Company, being all of the unsecured bonds and secured bonds held by the Company.
- The renegotiated terms and conditions and covenants for the remaining secured bonds (total aggregate face value of c.$30.08 million) came into effect upon admission.
- The new ordinary shares were issued at a price of 4.5p per share.

A gain of £4.9 million (net of fees of £2.5 million) arising from the restructure was recognised in the year ended 31 December 2017.

14 Related party transactions

(a) with Group companies

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

	Year ended 31 December 2018 £000	Year ended 31 December 2017 £000
Amounts due from/(to) subsidiaries:		
At 1 January	**106,349**	75,861
Services performed (for)/by subsidiary	**719**	2,676
Net cash advances	**(12,309)**	7,092
Group loan interest	**11,379**	11,379
Allowance for credit loss	**(6,402)**	–
Dividend receivable	**37,076**	–
Revaluations	**(7,106)**	9,341
At 31 December	**129,706**	106,349

	Year ended 31 December 2018 £000	Year ended 31 December 2017 £000
Amounts due from subsidiary undertakings	**35,429**	30,718
Amounts due to subsidiary undertakings	**(132,081)**	(145,751)
Loans to Group companies	**226,358**	221,382
Total	**129,706**	106,349

Payment terms for balances due to or from subsidiaries are as mutually agreed between the Group's companies. The payment terms in respect of loans are detailed in note 2.

(b) with Directors

Key management as defined by IAS 24 – Related Party Disclosures are those persons having authority and responsibility for planning, controlling and directing the activities of the Company. In the opinion of the Board, the Company's key management are the Directors of the Company. Information regarding their compensation is given in the Director' Remuneration Report.

15 Subsequent events

On 24 January 2019 the Group issued 45,598 Ordinary £0.00002 shares in relation to the Company's SIP scheme. The shares were issued at £0.80 resulting in share premium of £36,477.

On 11 March 2019, the Company announced a significant advancement in UK share prospectively with over 250 metres of hydrocarbon bearing shales encountered, including the upper and lower Bowland Shale, in the Springs Road 1 well.

Oil and Gas Reserves
As at 31 December 2018

The Group's estimate of proved plus probable reserves at 31 December 2018 are based on an independent evaluation of IGas conventional oil and gas interests prepared by D&M, the leading international reserves and resources auditors. Proved reserves are estimated reserves that geological and engineering data demonstrate with reasonable certainty to be recoverable in future years under existing economic and operating conditions, while probable reserves are estimated reserves determined to be more likely than not to be recoverable in future years under existing economic and operating conditions.

All of the Group's oil and gas assets are located in the United Kingdom.

Group proved plus probable reserves

	Oil mmbbls	Gas Bcf	Total mmboe
At 1 January 2018	13.25	2.25	13.64
Additions during the year	**0.90**	**8.90**	**2.43**
Revision of previous estimates	**(0.77)**	**0.44**	**(0.69)**
Production	**(0.79)**	**(0.18)**	**(0.82)**
Total change during the year	**(0.66)**	**9.16**	**0.92**
At 31 December 2018	**12.59**	**11.41**	**14.56**

IGas Onshore UK Licence Interests

Licence	Fields	Area km²	IGas interest	Operator	Other partners
East Midlands					
AL009	Dunholme[1]	9	100%	IGas	
EXL288	Trumfleet[2]	75	75%	IGas	INEOS
ML3	Egmanton	26	100%	IGas	
ML4	Gainsborough, Beckingham, Corringham, Glentworth	72	100%	IGas	
ML6	Bothamsall	11	100%	IGas	
ML7	South Leverton	11	100%	IGas	
PEDL006	Cold Hanworth	136	100%	IGas	
PEDL012		33	55%	IGas	INEOS
PEDL139		100	32%	IGas	INEOS, Egdon, Ecorp
PEDL140		142	32%	IGas	INEOS, Egdon, Ecorp
PEDL146		276	75%	IGas	INEOS
PEDL169[3]		62	80%	IGas	Egdon
PEDL200		114	55%	IGas	INEOS
PEDL210	Hemswell[1]	116	75%	IGas	INEOS
PEDL273[4]		194	35%	IGas	Total, Egdon, INEOS
PEDL 278		38	50%	IGas	Egdon
PEDL305		143	35%	IGas	Total, Egdon, INEOS
PEDL316		111	35%	IGas	Total, Egdon, INEOS
PEDL317	Hemswell[1]	39	100%	IGas	
PEDL337	Beckering[1]	10	100%	IGas	
PL178	West Beckingham	2	100%	IGas	
PL179	Welton, Stainton, Nettleham, Scampton South, Scampton North, East Glentworth	107	100%	IGas	
PL199[6]	Nettleham	4	100%	IGas	
PL220	Long Clawson, Rempstone	13	100%	IGas	
Weald Basin					
DL002	Stockbridge	10	100%	IGas	
DL004	Albury	14	100%	IGas	
ML18	Bletchingley	8	100%	IGas	
ML21	Bletchingley	9	100%	IGas	
PEDL021	Goodworth	50	100%	IGas	
PEDL070	Avington	18	54%	IGas	Egdon, Aurora, UKOG, Corfe
PEDL235	Godley Bridge[1]	100	100%	IGas	
PEDL257	Lingfield[1]	28	100%	IGas	
PEDL326		95	100%	IGas	
PL182	Palmers Wood	55	100%	IGas	
PL205	Storrington	18	100%	IGas	
PL211	Horndean	27	90%	IGas	UKOG
PL233	Stockbridge	58	100%	IGas	
PL240	Singleton	46	100%	IGas	
PL249	Stockbridge	16	100%	IGas	

Licence	Fields	Area km²	IGas interest	Operator	Other partners
North West					
EXL273		48	15%	INEOS	
PEDL145		74	40%	INEOS	
PEDL147		89	25%	IGas	INEOS
PEDL184		286	50%	IGas	INEOS
PEDL189		100	25%	IGas	INEOS
PEDL190		94	50%	IGas	INEOS
PEDL193		296	40%	INEOS	
PEDL293		200	30%	INEOS	
PEDL295		200	30%	INEOS	
Scotland					
P1270	Lybster	16	100%	IGas	
PEDL158	Lybster	46	100%	IGas	

Notes:
1. Dunholme, Hemswell, Beckering, Godley Bridge and Lingfield are undeveloped fields.
2. Trumfleet Field was abandoned in 2009 prior to IGas acquiring an interest in licence EXL288.

Glossary

£	The lawful currency of the United Kingdom
$	The lawful currency of the United States of America
1P	Low estimate of commercially recoverable reserves
2P	Best estimate of commercially recoverable reserves
3P	High estimate of commercially recoverable reserves
1C	Low estimate or low case of Contingent Recoverable Resource quantity
2C	Best estimate or mid case of Contingent Recoverable Resource quantity
3C	High estimate or high case of Contingent Recoverable Resource quantity
AIM	AIM market of the London Stock Exchange
boepd	Barrels of oil equivalent per day
bopd	Barrels of oil per day
Contingent Recoverable Resources	Contingent Recoverable Resources estimates are prepared in accordance with the Petroleum Resources Management System (PRMS), an industry recognised standard. A Contingent Recoverable Resource is defined as discovered potentially recoverable quantities of hydrocarbons where there is no current certainty that it will be commercially viable to produce any portion of the contingent resources evaluated. Contingent Recoverable Resources are further divided into three status groups: marginal, sub marginal, and undetermined. IGas' Contingent Recoverable Resources all fall into the undetermined group. Undetermined is the status group where it is considered premature to clearly define the ultimate chance of commerciality.
Drill or drop	A drill or drop well carries no commitment to drill. The decision whether or not to drill the well rests entirely with the licensee being driven by the results of geotechnical analysis. The licence will, however, still expire at the end of the initial term if the well has not been drilled.
Firm well	A firm well is classified as a firm commitment to drill a well. It is not contingent on any further geotechnical evaluation (i.e. it is a fully evaluated prospect).
GIIP	Gas initially in place
LNG	Liquefied Natural Gas
MMboe	Millions of barrels of oil equivalent
MMscfd	Millions of standard cubic feet per day
NBP	National balancing point – a virtual trading location for the sale and purchase and exchange of UK natural gas.
PEDL	United Kingdom petroleum exploration and development licence
PL	Production licence
Tcf	Trillions of standard cubic feet of gas
UK	United Kingdom

General Information

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

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