

# **UK Oil & Gas Investments PLC**

## **Annual Report and Accounts For the year ended 30 September 2015**

## CONTENTS

CHAIRMAN'S STATEMENT (INCORPORATING THE STRATEGIC REPORT) .....	1
DIRECTORS .....	9
REPORT OF THE DIRECTORS .....	10
REPORT OF THE INDEPENDENT AUDITOR TO THE MEMBERS OF UK OIL & GAS INVESTMENTS PLC .....	14
FINANCIAL STATEMENTS .....	15
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR YEAR ENDED 30 SEPTEMBER 2015 .....	15
CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 30 SEPTEMBER 2015 .....	16
COMPANY STATEMENT OF FINANCIAL POSITION AS AT 30 SEPTEMBER 2015 .....	17
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 SEPTEMBER 2015 .....	18
COMPANY STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 SEPTEMBER 2015 .....	19
CONSOLIDATED STATEMENT OF CASH FLOW FOR THE YEAR ENDED 30 SEPTEMBER 2015 .....	20
COMPANY STATEMENT OF CASH FLOW FOR THE YEAR ENDED 30 SEPTEMBER 2015 .....	21
NOTES TO THE FINANCIAL STATEMENTS .....	22
COMPANY INFORMATION .....	50

## **CHAIRMAN'S STATEMENT (INCORPORATING THE STRATEGIC REPORT) FOR THE YEAR ENDED 30 SEPTEMBER 2015**

I am pleased to present the annual report and accounts for UK Oil & Gas Investments PLC and its subsidiaries ("Group" or "UKOG") for the year ended 30 September 2015. Some of the key highlights are summarised below:

- Truly ground-breaking initial results from Horse Hill. UKOG will now seek new regulatory permissions to conduct a long term production test.
- Farmed in to the highly-promising Holmwood licence for an initial 20% interest, increasing to 30%.
- The Oil and Gas Authority offered UKOG and its partners the PEDL331 Isle of Wight onshore licence.
- UKOG completed its acquisition of three UK subsidiaries of Northern Petroleum Plc.
- UKOG currently has 21.3 million barrels of net attributable P50 Contingent and Prospective Resources, not including Horse Hill nor the Isle of Wight.

This has been a significant period for UKOG where our key investments and assets have shown substantial progress towards realising their full economic potential. Much of the progress has come from the intense effort by the technical team and the related investment in cutting edge science and technology by our investee companies. These technical efforts also provided the basis for key further acquisitions during the period.

UKOG further increased its interest in the Weald Basin Horse Hill licences through further acquisitions of shares in the Horse Hill operator, Horse Hill Developments Ltd ("HHDL"). Subsequent to the period end we announced that regulatory consents were in place in order to carry out flow testing of the Horse Hill-1 ("HH-1") oil discovery. Testing of three zones in the HH-1 well commenced on 08 February 2016.

Of great significance to UKOG is the recent news that the initial HH-1 flow test within the Lower Kimmeridge limestone was a success beyond our expectations. The sustained natural flow rates exceeding 450 barrels per day, of dry, 40 degrees API oil, were obtained from the Lower Kimmeridge limestone over a 3-day period without significant pressure depletion. I had the privilege to witness the first two 170-barrel road tanker oil-exports leave for the refinery, a major milestone for UKOG. The far higher than expected sustained natural flow rates demonstrate that commercial flow rates are achievable from this rock even using a vertical well.

I should stress that this was a truly ground-breaking operation, as this was the first ever test of this rock unit in the United Kingdom. The results have proven our new geological concept that light, sweet, moveable oil exists within the Kimmeridge section in the Weald Basin. This update provides further confidence in the estimates of possible recovery factors from the significant tight oil in place ("OIP") within the Kimmeridge of our licences, previously reported from Nutech and Schlumberger's studies undertaken last year.

Simply put, the flow test accelerates the Horse Hill Kimmeridge project and the Kimmeridge within our other interests in the Weald Basin, from geological concept to a potentially viable commercial project.

HHDL now plan to obtain new regulatory permissions to return as soon as practicable to the HH-1 site to conduct a long term production test. This will likely utilise a horizontal side-track well to potentially further improve the flow rates seen to date, and to establish the likely volume of recoverable oil per well.

As a result of the findings of the HH-1 well and the comprehensive technical studies carried out by experts such as Nutech and Schlumberger, UKOG's investee companies are in a vanguard position in developing the Kimmeridge play over our licences and the wider Weald Basin.

In order to exploit the knowledge gained and commercial advantage from HH-1, UKOG farmed in to the highly promising Holmwood licence, immediately to the west of Horse Hill, for an initial 20% interest, increasing this interest to 30% after the reporting period. This asset now forms a further key piece of UKOG's core Weald Kimmeridge and Portland growth strategy. The acreage contains a Horse Hill Portland look-alike prospect plus the continuation of the now proven Kimmeridge limestone oil play. We will use our key recent knowledge to maximise the benefit from the Holmwood-1 exploration well which is planned to be drilled in late 2016 or early 2017.

During the reporting period UKOG applied for one large licence on the Isle of Wight which contained similar potential and plays to our existing P1916 licence and core assets in the Weald. The Oil and Gas Authority ("OGA")

offered UKOG and its partners the PEDL331 licence onshore Isle of Wight after the reporting period in December 2015.

UKOG had proactively commissioned a recoverable resources analysis of PEDL331 prior to the licence offer and was thus able to report in January 2016 that the licence contained a potentially significant undeveloped oil discovery plus two look-alike undrilled conventional oil prospects. The addition of this licence is very material for the Group as it increased UKOG's net P50 Contingent Resources within conventional reservoirs by a factor of three to almost 14 million barrels recoverable ("MMBBL"). The Group's overall net recoverable resources increased five-fold to 21.3 million barrels with the addition of the licence.

Early in the reporting period, UKOG completed its acquisition of three UK subsidiaries of Northern Petroleum Plc ("NOP") and has further consolidated these investments during the reporting period.

The Markwells Wood oil discovery, acquired in the NOP transaction, was the subject of the Group's first operated Competent Person's Report in September 2015, adding substantive net Contingent Resources to our recoverable resource base. More importantly, we are now preparing a Field Development Plan and the necessary regulatory permissions in order to develop the field utilising horizontal wells and new non-massive fracking based reservoir stimulation technology that does not involve massive hydraulic fracturing ("fracking").

As of 1 January 2014, together with UKOG's indirect interest in the Brockham and Lidsey oil fields, UKOG had estimated net attributable P50 reserves of 91,954 barrels of oil (see Table 1 below).

At the time of writing, UKOG also has 21.3 million barrels ("MMbbl") of net attributable P50 Contingent and Prospective Resources (see Table 2 below). Table 2 does not include any net resources for Horse Hill, pending the completion of flow testing, nor does it include net resources for the Isle of Wight P1916 M prospect.

Gross unrisksed OIP for UKOG's licence interests are shown in Table 3. These OIP volumes are dominated by the tight OIP estimated for the Horse Hill licences. Two independent estimates of OIP, of similar magnitudes, were completed by specialist companies Nutech and Schlumberger. UKOG is now currently completing flow testing of three separate intervals within the Horse Hill-1 oil discovery well.

### **UKOG's UK EXPLORATION, DEVELOPMENT AND PRODUCTION PORTFOLIO**

**Note: As noted in the Group's previous announcements, all estimated OIP volumes in this report announcement should not be construed as Contingent Resources, Prospective Resources or Reserves.**

#### **Horse Hill Developments Limited ("HHDL"), Licences PEDL137 and PEDL246, Weald Basin**

- Preliminary results of the HH-1 well were announced on 24 October 2014, 5 November 2014 and 17 December 2014, stating that an oil discovery was made in the Upper Portland Sandstone, with oil shows and elevated gas readings in the underlying Kimmeridge shales and limestones.
- In March 2015, in two separate transactions, UKOG increased its direct interest in HHDL by a further 10%, from 20% to 30% for total consideration of £932,000 (in cash and shares). Together with UKOG's indirect interest in HHDL via Angus Energy, UKOG's economic interest in the Horse Hill licences is now 19.96%.
- On 18 March 2015 and 9 April 2015, UKOG announced that further well analysis, by UKOG and by Nutech had determined that the well data implied an OIP volume of 158 MMbbl per square mile within a 653 feet aggregate pay section, primarily within three limestones and interbedded shales of the Kimmeridge, and the shales of the Oxford and Lias sections. Approximately 72% of OIP, or 114 MMbbl, lies within the Upper Jurassic Kimmeridge interbedded limestone and shale sequence.
- On 13 May 2015, UKOG announced that the OGA had granted a one-year extension to the PEDL137 exploration period to 30 September 2016. The PEDL137 licence provides for a potential Production Period of 19 years.
- On 5 June 2015, UKOG announced that Schlumberger's independent review of OIP at the HH-1 discovery is 271.4 MMbbl per square mile.
- On 18 June 2015, UKOG announced that Nutech calculated that the total Jurassic shale plus tight conventional reservoir section contained in the 55 square miles of UKOG's two Horse Hill licences (PEDL137 and PEDL246) is a Best Estimate, or P50, OIP of 9,245 MMbbl. The most significant OIP within the Jurassic section is contained within the shales and tight conventional reservoir limestone sequences of the Kimmeridge, with a calculated Best Estimate, or P50, total Kimmeridge OIP of 5,230 MMbbl.

- On 26 August, UKOG announced that Schlumberger calculated a mean OIP in the two Horse Hill licences of 10,993 MMbbl.
- On 5<sup>th</sup> October, UKOG announced the results of a conceptual Weald Kimmeridge Limestone tight oil development study by Xodus. This showed that future developments could respect the rural beauty and way of life of the locality by putting wellheads and pumps below ground level and controlling production to minimise HGV impact on local road infrastructure.
- On 21 October 2015, UKOG announced that Nutech had calculated a gross tight OIP of 15,700 MMbbl in UKOG's eight licences in the Weald Basin. Nutech calculated that 124,000 MMbbl of tight OIP was contained in their 1,261 square mile study area in the Weald Basin.
- On 4 January 2016, UKOG announced that all regulatory consents were in place for HHDL to carry out flow testing of the Horse Hill-1 oil discovery.
- On 16 and 17 February 2016, UKOG announced the results of two flow test on the Lower Kimmeridge Limestone;
  - Flow commenced at around 10.00am GMT on 15 February at an initial instantaneous rate in excess of 700 barrels per day using a 1-inch choke, in an approximate mix of 50:50 oil to water. The well was then choked back to 32/64 inches resulting in a steady early oil rate in excess of 463 barrels of oil per day over a further 7.3-hour period, in an approximate mix of over 99% oil and less than 1% water.
  - UKOG announced that flow re-commenced at around 07.45 am GMT on 16 February at a steady oil rate in excess of 456 barrels of dry oil per day over a further 9.5-hour period using a smaller 28/64-inch choke in order to further stabilise the flow.
  - Flow test operations will now move to the shallower Upper Kimmeridge limestone and Portland sandstone zones at approximately 840 and 615 metres below ground level, respectively, once the Lower Kimmeridge testing is completed.

#### **Holmwood Licence (PEDL143)**

- On 29 June 2015, UKOG announced that it had executed a farm-in for a 20% interest in the Holmwood licence.
- The Holmwood licence lies immediately west of the Horse Hill licence PEDL137, to the south of the Brockham oil field. UKOG sees exploration prospectivity very similar to Horse Hill in the Holmwood licence. The licence contains a well define Portland sandstone look-alike to the Horse Hill and Collendean Farm oil discoveries. In addition, Nutech calculated that the Kimmeridge limestone play, now proven by HH-1, extends over the entire licence together with the underlying Kimmeridge, Oxford Clay and Lias limestone and shale tight oil plays. The Holmwood well will test the Portland and Kimmeridge objectives and be drilled in the late winter of 2016/17.
- On 23 September 2015, UKOG announced that Surrey County Council had given planning permission for the drilling of the Holmwood-1 exploration well.
- On 23 November 2015, UKOG announced that it had executed a second farm-in to Holmwood, bringing UKOG's licence interest to 30%.

#### **Isle of Wight, P1916 and PEDL331**

- On 28 October 2014, UKOG jointly applied for an approximately 200 km<sup>2</sup> onshore Isle of Wight licence (UKOG 65%), adjacent to the offshore Isle of Wight licence (P1916), proposing a firm exploration well and seismic, as part of the UK's 14<sup>th</sup> Landward Licence Round ("14<sup>th</sup> Round").
- After the reporting period, in December 2015, OGA offered this onshore Isle of Wight licence (PEDL331) to UKOG and its co-venturers.
- In January 2016, UKOG announced the results of an independent volumetric analysis by Xodus Group ("Xodus") of the Arreton-2 oil discovery ("Arreton Main") and the adjacent low-risk Arreton North and South Prospects ("Arreton Prospects"). Gross P50 OIP of 219 MMbbl was estimated for Arreton Main and the Arreton Prospects. Xodus estimated net P50 Contingent Resources of 10.2 MMbbl for Arreton Main, and net P50 Prospective Resources of 6.8 MMbbl for the Arreton Prospects.
- The offer of PEDL 331 will permit the M prospect to be drilled from an onshore location. Preliminary meetings to discuss the M prospect and Arreton-3 well sites and regulatory permitting were held with the Isle of Wight Local Planning Authority in summer 2015.

- On 25 March 2015, UKOG announced that within P1916, the main prospective Portland limestone and Triassic Sherwood sandstone reservoir objectives in the undrilled "M Prospect" contained potential unrisksed OIP volumes of 40 MMbbl and 76.5 MMbbl respectively. A gas only case for the Triassic Sherwood estimated a potential gross gas in place ("GIP") volume of 197 billion standard cubic feet of gas ("bcf"). An independent review of recoverable prospective resources by Xodus is nearing completion.
- On 15 June 2015, the Board announced a one-year extension to the P1916 offshore Isle of Wight licence.

#### **Markwells Wood Oil Field and Baxters Copse Oil Discovery**

- As announced in February and March 2015, UKOG, via two separate transactions, increased its working interest in the PEDL126 Markwells Wood to 100%.
- On 13 May 2015, UKOG announced that OGA had granted one-year extensions to the exploration period of the PEDL126 Markwells Wood and PEDL233 Baxters Copse licences.
- On 14 September 2015, UKOG announced that a Competent Person Report ("CPR") by Xodus had calculated P50 net Contingent Resources for the Markwells Wood oil field of 1.25 MMbbl.
- On 16 October 2015, UKOG announced that the Markwells Wood Planning Permission had been extended until 30 September 2016.
- The commercial prospectivity of the Baxters Copse oil discovery is still under technical evaluation by the Company and the operator IGas Energy Plc ("IGas").

#### **UKOG (GB) Limited, UKOG Weald Limited and UKOG Solent Limited- Horndean and Avington Producing Oil Fields**

- UKOG completed its Northern Petroleum Plc ("NOP") acquisition on 17 October 2014.
- The NOP companies were re-named UKOG (GB) Limited, UKOG Weald Limited and UKOG Solent Limited.
- Five UK licences were acquired from NOP, four onshore and one offshore, all located in the South of England.
- Four assets are in the Weald Basin, one in the analogous Wessex-Purbeck-Wight Basin.
- The assets include the Horndean onshore producing oil field (UKOG (GB) interest 10%) and Avington onshore producing oil field (UKOG (GB) interest 5%), an offshore Isle of Wight exploration licence (UKOG Solent interest 77.5%) and the Baxters Copse (UKOG Weald interest 50%) and Markwells Wood (UKOG (GB) interest 100%) onshore Jurassic Great Oolite oil discoveries.
- Horndean and Avington continued stable oil production throughout the period.

#### **Lidsey and Brockham Producing Oil Fields: Angus Energy Limited ("Angus Energy")**

- UKOG has a 6% share ownership of Angus Energy, which operates and produces oil from both the Lidsey and Brockham oil fields in the Weald Basin.
- The Brockham field is the closest analogous Portland sandstone producing oil field to the Horse Hill-1 Portland sandstone discovery. Lidsey produces from the same Great Oolite limestone reservoir as UKOG's Horndean and Avington oil fields and the Markwells Wood and Baxter's Copse oil discoveries.
- Angus Energy is a 12% owner of HHDL. Angus Energy reduced its ownership in HHDL down from 40% during the reporting period and subsequent to the year end reduced its ownership from 17% to 12%.
- Angus Energy plans to drill a side-track at Brockham and a new well at Lidsey.

#### **NEXT PERIOD**

In the next twelve-month period the Directors expect to see a number of positive developments for the Group.

- HHDL expects to complete the two remaining flow tests of the Horse Hill well operation in the Upper Kimmeridge limestone and Portland sandstone. We plan to return to the well to conduct a long term production test and horizontal sidetrack well, to establish the most likely expected recoverable volume of oil from the well. Preparations are now underway to submit the necessary documentation to acquire the regulatory permissions to proceed towards further appraisal and development of one or more zones of the well. These permissions will include the capability for additional phases of development drilling.
- UKOG is well advanced in the construction of a Field Development Plan for the Markwells Wood oil discovery (UKOG 100% and Operator). This will likely be completed and submitted to the OGA by June 2016. Planning permission will also be sought from the South Downs National Park Authority before end 2016.
- UKOG will finalise the onshore Isle of Wight licence (PEDL331, UKOG 65%) with OGA, following the 14th Round award.

- UKOG will continue with well design and preliminary regulatory steps necessary to drill an appraisal well on the Arreton Main oil discovery in PEDL331 (UKOG 65%) and an exploration well on the M Prospect in P1916 offshore Isle of Wight (UKOG 77.5% and Operator).
- UKOG is considering drilling an appraisal well on the Baxters Copse discovery (IGas 50% Operator, UKOG 50%).
- New production wells are being planned on two of Angus Energy's producing licences (Lidsey and Brockham).
- UKOG plans to continue to expand its licence position in the UK onshore, particularly in its core Weald Basin tight-oil plays, with additional exploration, development and production investments. The UK onshore continues to be an attractive buyer's market for assets given the Company's cash position.

Your Board of Directors will continue to seek out further attractive investments in line with the UKOG's investment strategy.

### **UKOG RESERVES, RESOURCES AND OIL IN PLACE**

Table 1 shows gross and net reserves (effective 1 January 2014) for UKOG's four producing fields

**Table 1: UKOG's Producing Fields, Gross and Net Reserves**

Asset	Licence	UKOG's Interest	Gross Reserves (MMbbl)			Net Reserves (bbl) <sup>1</sup>			Source, Date
			P90	P50	P10	P90	P50	P10	
Horndean	PL211	10%	0.717	0.856	1.143	71,700	85,600	114,300	IGas/Senergy, July 2014
Avington	PEDL070	5%	0.040	0.063	0.125	2,000	3,150	6,250	IGas/Senergy, July 2014
Lidsey	PL241	4.2%	0.0127	0.0360	0.0547	533	1,512	2,297	Angus/RPS, March 2014
Brockham	PL234	3.6%	0.0179	0.0470	0.1015	644	1,692	3,654	Angus/RPS, March 2014
<b>TOTALS</b>						<b>74,878</b>	<b>91,954</b>	<b>126,501</b>	

**Note:**

1. UKOG net share. NB: units are barrels, not MMbbl.

Table 2 shows unrisks gross and net resources for UKOG's four oil discoveries and three exploration prospects.

**Table 2: UKOG's Unrisks Gross and Net Resources**

Asset	Licence	UKOG's Interest	Gross Resources (MMbbl)			Net Resources (MMbbl) <sup>1</sup>			Source, Date
			P90	P50	P10	P90	P50	P10	
Markwells Wood <sup>2</sup>	PEDL126	100%	0.63	1.25	2.71	0.63	1.25	2.71	Xodus, September 2015
Holmwood <sup>3</sup>	PEDL143	20%	0.81	3.36	12.51	0.16	0.67	2.50	Europa/ERCE, June 2012
Baxters Copse <sup>2</sup>	PEDL233	50%	3.11	4.67	6.23	1.56	2.34	3.11	IGas/Senergy, July 2014
Arreton Main <sup>2</sup>	PEDL331	65%	9.9	15.7	24.10	6.4	10.2	15.7	Xodus, January 2016
Arreton Prospects <sup>3</sup>	PEDL331	65%	4.0	10.5	21.60	2.6	6.8	14.0	Xodus, January 2016
Lidsey <sup>2</sup>	PL241	4.2%	0.20	0.41	0.62	0.01	0.02	0.03	Angus/RPS, March 2014
<b>TOTALS</b>						<b>11.39</b>	<b>21.30</b>	<b>38.06</b>	

**Note:**

1. UKOG net share.
2. Contingent Resources.
3. Prospective Resources.



Table 3 shows unrisksed gross OIP for all of UKOG's current 11 licences.

**Table 3: UKOG Unrisksed Gross OIP**

Asset	Licence	UKOG's Interest	OIP (MMbbl) or GIIP (bcf)			Source, Date
			Low	Best	High	
Offshore Isle of Wight - M Prospect Oil	P1916	77.5%	37.4	106.6	239.2	UKOG, March 2015
Offshore Isle of Wight - M Prospect Gas <sup>1</sup>	P1916	77.5%	56.8	184	426	UKOG, March 2015
Onshore Isle of Wight	PEDL331	65.0%	144	219	322	Xodus, January 2016
Markwells Wood	PEDL126	100%	32.7	45.6	61.8	Xodus, September 2015
Holmwood	PEDL143	20%	3.83	15.38	55.38	Europa/ERCE, June 2012
Horndean	PL211	10%	27.4	56.1	110.2	Northern/RPS, Feb 2010
Avington	PEDL070	5%	25.3	59.1	110.3	IGas/Senergy, July 2014
Baxters Copse	PEDL233	50%	N/A	51.9	N/A	IGas/Senergy, July 2014
Horse Hill U Portland	PEDL137/ 246	20.163%	14.3	21.0	30.4	Xodus, May 2015
Horse Hill Tight Oil	PEDL137/ 246	20.163%	3,131	9,245	17,519	Nutech, June 2015
Horse Hill Tight Oil	PEDL137/ 246	20.163%	N/A	10,993	N/A	Schlumberger, August 2015
Lidsey	PL241	4.2%	7.5	9.5	11.9	Angus/RPS, March 2014
Brockham	PL234	3.6%	1.9	3.6	5.8	Angus/RPS, March 2014

**Notes:**

1. M Prospect GIIP figure.

**MANAGEMENT APPOINTMENTS**

UKOG announced the appointment of Stephen Sanderson as its CEO on 27 January 2015 and as Executive Chairman on 8 July 2015. Matt Cartwright was appointed as the Company's COO on 18 September 2015. Kiran Morzaria was appointed as the Company's Finance Director subsequent to the period end on the 23 October 2015

## **RESULTS FOR THE PERIOD**

Loss on ordinary activities of the Group after taxation amounted to £1,695,000 (2014: Loss £907,000). The increase in losses are mainly attributable to uncapitalised consultant, legal and due diligence costs associated with the acquisition and development of the Group's investments and assets, particularly within its core Weald Basin Portland and Kimmeridge tight oil licences and the new Isle of Wight portfolio.

Net cash out flow from operating activities was £1,058,000 (2014: £1,207,000). The Group invested £3,657,000 (2014: 1,570,000). The majority of these investments were associated with expenditures on exploration and evaluation of assets and acquisitions of subsidiaries.

The Group has funded these investments, acquisitions and operating costs via financing activities which raised £8,323,000 during the period (2014: £3,759,000). The large majority of this funding has been sourced through the issue of new ordinary shares.

At the end of the period the Group had £4,590,000 (£982,000) in cash and cash equivalents. Along with its non-current and other current assets the consolidated total assets were £11,581,000 (2014: £4,148,000). Total liabilities increased to £799,000 (2014: 496,000). This increase in liabilities is attributable to the provisions made by the Group in relation to its share of the decommissioning liabilities in respect of the currently producing Horndean and Avington fields plus the drilling sites at Markwell's Wood and Havant.

## **OUTLOOK**

The Board recognises that this is an exciting period for the Company as it continues to maximise value from its existing investments. The board will seek to further capitalise upon its vanguard position in the new and exciting Weald Basin plays recently proven by the first HH-1 flow test. The Board believes that current low oil prices combined with the Company's technical and financial strength provide an ideal opportunity to significantly expand the Company's acreage position. We shall evaluate and seek additional investments as opportunities arise.

The Board would like to take this opportunity to thank our shareholders for their continued support and I look forward to reporting further progress over the next period and beyond.

**Stephen Sanderson**  
**Executive Chairman & Chief Executive Officer**  
25 February 2016

### **Qualified Person's Statement:**

Stephen Sanderson, UKOG's Executive Chairman, who has over 35 years of relevant experience in the oil industry, has approved the information contained in this announcement. Mr Sanderson is a Fellow of the Geological Society of London and is an active member of the American Association of Petroleum Geologists.

**DIRECTORS**  
**FOR THE YEAR ENDED 30 SEPTEMBER 2015**

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**Stephen Sanderson, Executive Chairman and Chief Executive Officer**

Stephen Sanderson joined UK Oil & Gas Investments PLC in September 2014 and was appointed Executive Chairman and Chief Executive in July 2015. A highly-experienced petroleum geologist, oil industry veteran and upstream energy business leader, with over 30 years operating experience, Stephen is a proven oil finder and has been instrumental in the discovery of more than 10 commercial conventional fields, including the Norwegian Smorbuk-Midgaard field complex. Stephen held a variety of senior management roles for ARCO (which was acquired by BP in 2000), Wintershall AG (a subsidiary of German chemical giant BASF) and three junior start-ups. He created and ran successful new exploration businesses in Africa, Europe and South America. He has significant technical and commercial expertise in the petroleum systems of Africa, the North Sea, Norway, onshore UK & Europe, South America, the South Atlantic, Middle East, Asia, India, Australia and the USA. He is a graduate and Associate of the Royal School of Mines, Imperial College, London, a Fellow of the Geological Society of London and a member of the American Association of Petroleum Geologists. He served for four years in the British Army and TAVR as a platoon commander, serving in the UK and Berlin.

**Kiran Morzaria, Finance Director (appointed 23 October 2015)**

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

**Jason Berry, Executive Director**

Jason Berry joined UK Oil & Gas Investments PLC as an Executive Director in August 2014. He has extensive experience operating in global public markets having spent approximately 20 years working in the financial services sector in London. Highly experienced in raising capital for listed Companies and Sales Trading, Jason was Director of Dawnay Day Investment Banking Limited and was involved in the successful buy out of the business which now trades as Hobart Capital Markets Limited. Currently Jason serves as a Non-Executive Director Polemos Plc. He holds a BA (Honours) in European Business Studies.

## REPORT OF THE DIRECTORS

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The Directors present their annual report together with the audited consolidated financial statements of the Group for the Year Ended 30 September 2015.

### **Principal Activity and Business Review**

The principal activity of the Group and the Company is that of an investment holding company to acquire a diverse portfolio of direct and indirect interests in exploration, development and production oil and gas assets which are based in the UK.

### **Results and Dividends**

Loss on ordinary activities of the Group after taxation amounted to £1,695,000 (2014: Loss £907,000). The Directors do not recommend the payment of a dividend (2014: £nil). The Company has no plans to adopt a dividend policy in the immediate future.

### **Principal Risks and Uncertainties**

The principal risks and uncertainties facing the Group involve the ability to secure funding in order to finance the acquisition and exploitation of oil and gas assets and fluctuating commodity prices.

In addition, the amount and quality of the Group's oil and gas resources and the related costs of extraction and production represent a significant risk to the Group.

### **Financial Risk Management Objectives and Policies**

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

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

### **Liquidity Risk**

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

### **Key Performance Indicators**

Due to the current status of the Group, the Board has not identified any performance indicators as key.

### **Future Developments**

Future developments are outlined in the Chairman's Statement and Strategic Report.

### **Going Concern**

The Directors note the substantial losses that the Group has made for the year ended 30 September 2015. The Directors have prepared cash flow forecasts for the period ending 28 February 2017 which take account of the current cost and operational structure of the Group.

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

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

### **Events After the Reporting Period**

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

## REPORT OF THE DIRECTORS (CONTINUED)

### Corporate Governance

Audit and Remuneration Committees have been established and in each case comprise Directors Jason Berry and Kiran Morzaria, with Jason Berry as Chairman.

The role of the Remuneration Committee is to review the performance of the executive Directors and to set the scale and structure of their remuneration, including bonus arrangements. The Remuneration Committee also administers and establishes performance targets for the Group's employee share schemes and executive incentive schemes for key management. In exercising this role, the terms of reference of the Remuneration Committee require it to comply with the Code of Best Practice published in the Combined Code.

The Audit Committee is responsible for making recommendations to the Board on the appointment of the auditors and the audit fee, and receives and reviews reports from management and the Company's auditors on the internal control systems in use throughout the Group and its accounting policies.

### Suppliers' Payment Policy

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

### Charitable Contributions

During the year the Group made charitable donations amounting to £Nil (2014 - £Nil).

### Substantial Shareholdings

As at 11 February 2016, the Company had been notified of the following substantial shareholdings in the ordinary share capital:

	Number of Ordinary Shares	Holding %
TD Direct Investing Nominees (Europe) Ltd	191,838,833	9.45
Barclayshare Nominees Ltd	178,210,748	8.78
HSDL Nominees Ltd	160,723,350	7.92
Hargreaves Lansdown (Nominees) Ltd	151,766,218	7.48
HSBC Client Holdings Nominee (UK) Ltd	112,843,780	5.56
Hargreaves Lansdown (Nominees) Ltd	95,366,579	4.70
Hargreaves Lansdown (Nominees) Ltd	94,076,594	4.63
HSDL Nominees Ltd	85,750,035	4.22
Vidacos Nominees Ltd	76,997,918	3.79
TD Direct Investing Nominees (Europe) Ltd	69,957,786	3.45

## **REPORT OF THE DIRECTORS (CONTINUED)**

### **Directors**

The Directors who held office during the year and up to the date of this report are given below:

#### ***Current Board***

Stephen Sanderson (Executive Chairman) (appointed 8 July 2015)

Jason Berry (Executive Director)

Kiran Morzaria (Finance Director) (appointed 23 October 2015)

#### ***Previous Directors***

David Lenigas (resigned 8 July 2015)

Donald Strang (resigned 23 October 2015)

Stephen Sanderson and Jason Berry, hold fully vested options over 25,000,000 and 10,000,000 ordinary shares each (total options held by directors is 35,000,000) which are exercisable at 0.4p and 1.15p each up until 31 December 2017, and 22 August 2019, respectively.

### **Auditor**

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

### **Annual General Meeting**

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

## **REPORT OF THE DIRECTORS (CONTINUED)**

### **Statement of Directors' Responsibilities**

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

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

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

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

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

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

### **Statement as to Disclosure of Information to the Auditor**

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

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

ON BEHALF OF THE BOARD

Stephen Sanderson  
Director  
25 February 2016

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

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We have audited the Group and Parent Company financial statements of UK Oil & Gas Investments PLC for the year ended 30 September 2015, which comprise the Consolidated Statement of Comprehensive Income, the Consolidate Statement of Financial Position, the Company Statement of Financial Position the Consolidated Statement of Cash Flows, Company Statement of Cash Flows, the Consolidated Statement of Changes in Equity, the Company Statement of Changes in Equity and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards as adopted by the EU ("adopted IFRS").

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

### **Respective Responsibilities of Directors and Auditors**

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

### **Scope of the Audit of the Financial Statements**

A description of the scope of an audit of financial statements is provided on the APB's website at [www.frc.org.uk/apb/scope/private.cfm](http://www.frc.org.uk/apb/scope/private.cfm).

### **Opinion on the Financial Statements**

In our opinion the financial statements:

- Give a true and fair view of the state of the Group and Company's affairs as at 30 September 2015 and of the Group's loss for the year then ended;
- Have been properly prepared in accordance with International Financial Reporting Standards as adopted by the EU; and
- Have been prepared in accordance with the requirements of the Companies Act 2006.

### **Opinion on Other Matter Prescribed by the Companies Act 2006**

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

### **Matters on Which We are Required to Report by Exception**

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

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

Keith Fulton  
Senior Statutory Auditor  
for and on behalf of Chapman Davis LLP  
Statutory Auditor, Chartered Accountants  
London  
25 February 2016



## FINANCIAL STATEMENTS

### CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR YEAR ENDED 30 SEPTEMBER 2015

	Notes	2015 £'000	2014 £'000
<b>Revenue</b>	3	240	7
Cost of sales		(146)	-
<b>Gross profit</b>		<b>94</b>	<b>7</b>
<b>Operating expenses</b>			
Administrative expenses		(1,192)	(544)
Foreign exchange (loss)		(49)	-
Depletion & impairment expense	10	(82)	-
Share based payments expense	22	(378)	(351)
<b>Operating (loss)</b>	4	<b>(1,607)</b>	<b>(888)</b>
Gain/(loss) on settlements of derivative financial instrument		62	(18)
Share of associate loss	12	(69)	-
Finance costs	6	(81)	-
<b>(Loss) before taxation</b>		<b>(1,695)</b>	<b>(906)</b>
<b>Taxation</b>	7	-	-
<b>(Loss) for the year attributable to equity holders of the parent</b>		<b>(1,695)</b>	<b>(906)</b>
<b>Other comprehensive income</b>			
Transfer to income statement		(44)	-
Gain on revaluation of derivative financial instrument		-	44
<b>Other comprehensive income net of taxation</b>		<b>(44)</b>	<b>44</b>
<b>Total comprehensive loss attributable to equity holders of the parent</b>		<b>(1,739)</b>	<b>(862)</b>
<b>(Loss) per share</b>		<b>Pence</b>	<b>Pence</b>
Basic and diluted	8	(0.10)	(0.11)

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

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION  
AS AT 30 SEPTEMBER 2015**

	Notes	2015 £'000	2014 £'000
<b>Assets</b>			
<b>Non-current assets</b>			
Exploration & evaluation assets	9	1,309	-
Oil & Gas properties	10	1,566	-
Investment in associate	12	2,063	-
Available for sale investments	13	368	1,568
<b>Total non-current assets</b>		<b>5,306</b>	<b>1,568</b>
<b>Current assets</b>			
Inventory	14	2	-
Trade and other receivables	15	1,683	1,414
Derivative financial instrument	16	-	184
Cash and cash equivalents	17	4,590	982
<b>Total current assets</b>		<b>6,275</b>	<b>2,580</b>
<b>Total Assets</b>		<b>11,581</b>	<b>4,148</b>
<b>Current liabilities</b>			
Trade and other payables	18	(329)	(496)
Borrowings	19	(111)	-
<b>Total current liabilities</b>		<b>(440)</b>	<b>(496)</b>
<b>Non-current Liabilities</b>			
Provisions	20	(359)	-
<b>Total non-current liabilities</b>		<b>(359)</b>	<b>-</b>
<b>Total liabilities</b>		<b>(799)</b>	<b>(496)</b>
<b>Net Assets</b>		<b>10,782</b>	<b>3,652</b>
<b>Shareholders' Equity</b>			
Share capital	21	11,787	11,726
Share premium account		31,622	23,192
Revaluation Reserve		-	44
Share based payment reserve		659	351
Accumulated losses		(33,286)	(31,661)
<b>Total shareholders' equity</b>		<b>10,782</b>	<b>3,652</b>

These financial statements were approved by the Board of Directors on 25 February 2016 and are signed on its behalf by:

Stephen Sanderson  
Director

Jason Berry  
Director

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

**COMPANY STATEMENT OF FINANCIAL POSITION  
AS AT 30 SEPTEMBER 2015**

	Notes	2015 £'000	2014 £'000
<b>Assets</b>			
<b>Non-current assets</b>			
Exploration & evaluation assets	9	662	-
Investment in subsidiary companies	11	1,512	-
Investment in associate	12	2,063	-
Available for sale investments	13	368	1,568
<b>Total non-current assets</b>		<b>4,605</b>	<b>1,568</b>
<b>Current assets</b>			
Trade and other receivables	15	2,120	1,414
Derivative financial instrument	16	-	184
Cash and cash equivalents	17	4,461	982
<b>Total current assets</b>		<b>6,581</b>	<b>2,580</b>
<b>Total Assets</b>		<b>11,186</b>	<b>4,148</b>
<b>Current liabilities</b>			
Trade and other payables	18	(313)	(496)
Borrowings	19	(111)	-
<b>Total Current Liabilities</b>		<b>(424)</b>	<b>(496)</b>
<b>Total liabilities</b>		<b>(424)</b>	<b>(496)</b>
<b>Net Assets</b>		<b>10,762</b>	<b>3,652</b>
<b>Shareholders' Equity</b>			
Share capital	21	11,787	11,726
Share premium account		31,622	23,192
Share Based Payment Reserve		659	351
Revaluation Reserve		-	44
Accumulated losses		(33,306)	(31,661)
<b>Total shareholders' equity</b>		<b>10,762</b>	<b>3,652</b>

These financial statements were approved by the Board of Directors on 25 February 2016 and are signed on its behalf by:

Stephen Sanderson  
Director

Jason Berry  
Director

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

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY  
FOR THE YEAR ENDED 30 SEPTEMBER 2015**

	Share capital £'000	Share premium £'000	Share based payment reserve £'000	Revaluation reserve £'000	Accumulated losses £'000	Total £'000
<b>Balance at 1 October 2013</b>	<b>11,595</b>	<b>19,039</b>	<b>866</b>	-	<b>(31,621)</b>	<b>(121)</b>
Loss for the year	-	-	-	-	(906)	(906)
Other comprehensive income						
– Gain on revaluation of derivative financial instrument	-	-	-	44	-	44
<b>Total comprehensive income</b>	-	-	-	44	(906)	<b>(862)</b>
Issue of shares	131	4,365	-	-	-	4,496
Cost of share issue	-	(212)	-	-	-	(212)
Share options expired	-	-	(866)	-	866	-
Share based payments	-	-	351	-	-	351
<b>Balance at 30 September 2014</b>	<b>11,726</b>	<b>23,192</b>	<b>351</b>	<b>44</b>	<b>(31,661)</b>	<b>3,652</b>
Loss for the year	-	-	-	-	(1,695)	(1,695)
Other comprehensive income						
– Transfer to income statement	-	-	-	(44)	-	(44)
<b>Total comprehensive income</b>	-	-	-	(44)	(1,695)	<b>(1,739)</b>
Issue of shares	61	8,922	-	-	-	8,983
Cost of share issue	-	(492)	-	-	-	(492)
Share options exercised	-	-	(70)	-	70	-
Share based payments	-	-	378	-	-	378
<b>Balance at 30 September 2015</b>	<b>11,787</b>	<b>31,622</b>	<b>659</b>	-	<b>(33,286)</b>	<b>10,782</b>

**COMPANY STATEMENT OF CHANGES IN EQUITY  
FOR THE YEAR ENDED 30 SEPTEMBER 2015**

	Share capital	Share premium	Share based payment reserve	Revaluation reserve	Accumulated losses	Total
	£'000	£'000	£'000	£'000	£'000	£'000
<b>Balance at 1 October 2013</b>	<b>11,595</b>	<b>19,039</b>	<b>866</b>	-	<b>(31,621)</b>	<b>(121)</b>
Loss for the year	-	-	-	-	(906)	(906)
Other comprehensive income						
– Gain on revaluation of derivative financial instrument	-	-	-	44	-	44
Total comprehensive income	-	-	-	44	(906)	(862)
Issue of shares	131	4,365	-	-	-	4,496
Cost of share issue	-	(212)	-	-	-	(212)
Share options expired	-	-	(866)	-	866	-
Share based payments	-	-	351	-	-	351
<b>Balance at 30 September 2014</b>	<b>11,726</b>	<b>23,192</b>	<b>351</b>	<b>44</b>	<b>(31,661)</b>	<b>3,652</b>
Loss for the year	-	-	-	-	(1,715)	(1,715)
Other comprehensive income						
– Transfer to income statement	-	-	-	(44)	-	(44)
Total comprehensive income	-	-	-	(44)	(1,715)	(1,759)
Issue of shares	61	8,922	-	-	-	8,922
Cost of share issue	-	(492)	-	-	-	(492)
Share options exercised	-	-	(70)	-	70	-
Share based payments	-	-	378	-	-	378
<b>Balance at 30 September 2015</b>	<b>11,787</b>	<b>31,622</b>	<b>659</b>	-	<b>(33,306)</b>	<b>10,762</b>

**CONSOLIDATED STATEMENT OF CASH FLOW  
FOR THE YEAR ENDED 30 SEPTEMBER 2015**

	Year ended 30 September 2015 £'000	Year ended 30 September 2014 £'000
<b>Cash flow from operating activities</b>		
Loss from operations	(1,607)	(889)
Foreign currency losses	48	-
Other non-cash income & expenses	(52)	-
Depletion & impairment	82	-
Share based payment charge	378	351
(Increase) in inventories	(2)	-
Decrease/(increase) in trade and other receivables	262	(1,044)
(Decrease)/increase in trade and other payables	(167)	375
<b>Net cash (outflow) from operating activities</b>	<b>(1,058)</b>	<b>(1,207)</b>
<b>Cash flows from investing activities</b>		
Expenditures on exploration & evaluation assets	(1,013)	-
Expenditures on oil & gas properties	(40)	-
Payments to acquire available for sale investments	(580)	(1,200)
Loans advanced to investee companies	(531)	(370)
Acquisition of subsidiaries, net of cash acquired	(1,493)	-
<b>Net cash (outflow) from investing activities</b>	<b>(3,657)</b>	<b>(1,570)</b>
<b>Cash flows from financing activities</b>		
Proceeds from issue of share capital	8,630	4,129
Share issue costs	(492)	(212)
Proceeds from loan & borrowings	622	-
Repayments of loan & borrowings	(557)	-
Finance costs paid	(81)	-
Payments to acquire derivative financial instrument	-	(250)
Receipts from settlements of financial instrument	201	92
<b>Net cash inflow from financing activities</b>	<b>8,323</b>	<b>3,759</b>
<b>Net change in cash and cash equivalents</b>	<b>3,608</b>	<b>982</b>
Cash and cash equivalents at beginning of period	982	-
<b>Cash and cash equivalents at end of period</b>	<b>4,590</b>	<b>982</b>

**COMPANY STATEMENT OF CASH FLOW  
FOR THE YEAR ENDED 30 SEPTEMBER 2015**

	Year ended 30 September 2015 £'000	Year ended 30 September 2014 £'000
<b>Cash flow from operating activities</b>		
(Loss) from operations	(1,627)	(889)
Foreign currency losses	48	-
Share based payment charge	378	351
Decrease/(increase) in trade and other receivables	277	(1,044)
(Decrease)/increase in trade and other payables	(183)	375
<b>Net cash (outflow) from operating activities</b>	<b>(1,107)</b>	<b>(1,207)</b>
<b>Cash flows from investing activities</b>		
Expenditures on exploration & evaluation assets	(662)	-
Payments for acquisition of subsidiaries	(1,512)	-
Payments to acquire available for sale investments	(580)	(1,200)
Loans advanced to investee companies	(531)	(370)
Loan advanced to subsidiary	(452)	-
<b>Net cash (outflow) from investing activities</b>	<b>(3,737)</b>	<b>(1,570)</b>
<b>Cash flows from financing activities</b>		
Proceeds from issue of share capital	8,630	4,129
Share issue costs	(492)	(212)
Proceeds from loan & borrowings	622	-
Repayments of loan & borrowings	(557)	-
Finance costs paid	(81)	-
Payments to acquire derivative financial instrument	-	(250)
Receipts from settlements of financial instrument	201	92
<b>Net cash inflow from financing activities</b>	<b>8,323</b>	<b>3,759</b>
<b>Net change in cash and cash equivalents</b>	<b>3,479</b>	<b>982</b>
Cash and cash equivalents at beginning of period	982	-
<b>Cash and cash equivalents at end of period</b>	<b>4,461</b>	<b>982</b>

## NOTES TO THE FINANCIAL STATEMENTS

### 1. Principal Accounting Policies

#### Basis of Preparation

UK Oil and Gas Investments PLC is a company incorporated in the United Kingdom. The Company's shares are listed on the AIM market of the London Stock Exchange.

The Company's Investing Policy is to invest in and/or acquire companies and/or projects within the natural resources sector with potential for growth. The Company will also consider opportunities in other sectors as they arise if the Board considers that there is an opportunity to generate potential value for Shareholders. Where appropriate, the Board may seek to invest in businesses where it may add its expertise to the management of the business and utilise its industry relationships.

The geographical focus will primarily be in regions in the world where the Board considers that valuable opportunities exist and potential returns can be achieved. The Board has identified United Kingdom as the current Company's focus. The Company's interests in an investment and/or acquisition may range from a minority position to full ownership and may comprise one investment or multiple investments. The investments may be in either quoted or unquoted companies; be made by direct acquisitions or farm-ins; and may be in companies, partnerships, earn-in joint ventures, debt or other loan structures, joint ventures or direct or indirect interests in assets or projects. The Board may focus on investments where intrinsic value may be achieved from the restructuring of investments or merger of complementary businesses.

The Board expects that investments will typically be held for the medium to long term, although short term disposal of assets cannot be ruled out if there is an opportunity to generate a potentially attractive return for Shareholders. The Board will place no minimum or maximum limit on the length of time that any investment may be held. The Company may be both an active and a passive investor depending on the nature of the individual investment. There is no limit on the number of projects in which the Company may invest, and the Company's financial resources may be invested in a number of propositions or in just one investment, which may be deemed to be a reverse takeover under the AIM Rules. The Board intends to mitigate risk by appropriate due diligence and transaction analysis. Any transaction constituting a reverse takeover under the AIM Rules will also require Shareholder approval. The Board considers that as investments are made, and new promising investment opportunities arise, further funding of the Company may also be required.

Where the Company builds a portfolio of related assets it is possible that there may be cross holdings between such assets. Investments in early stage assets are expected to be mainly in the form of equity, with debt potentially being raised later to fund the development of such assets. Investments in later stage assets are more likely to include an element of debt to equity gearing. The Board may also offer New Ordinary Shares by way of consideration as well as cash, thereby helping to preserve the Company's cash for working capital and as a reserve against unforeseen contingencies including, for example, delays in collecting accounts receivable, unexpected changes in the economic environment and operational problems. Investments may be made in all types of assets and there will be no investment restrictions on the type of investment that the Company might make nor the type of opportunity that may be considered. The Company may consider possible opportunities anywhere in the world.

The Board will conduct initial due diligence appraisals of potential business or projects and, where they believe further investigation is warranted, intend to appoint appropriately qualified persons to assist. The Board believes its expertise will enable it to determine quickly which opportunities could be viable and so progress quickly to formal due diligence. The Company will not have a separate investment manager.

The initial focus of the Company will be the achievement of capital growth for Shareholders and therefore the Company will only consider the payment of dividends as and when it is appropriate to do so. As such, it is not possible at this stage to give an indication of the likely level or timing of any future dividends. To the extent that any dividends are paid they will be paid in accordance with any applicable laws and the regulations to which the Company is subject. The amount of the dividends paid to Shareholders will fluctuate according to the levels of profits earned by the Company and will be dependent on sufficient distributable reserves being available to the Company.



## **NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

### **1. Principal Accounting Policies (continued)**

#### **Basis of Preparation (continued)**

The Consolidated Financial Statements are for the year ended 30 September 2015 and have been prepared under the historical cost convention and in accordance with International Financial Reporting Standards as adopted by the EU ("adopted IFRS"). These Consolidated Financial Statements (the "Financial Statements") have been prepared and approved by the Directors on 25 February 2016 and signed on their behalf by Stephen Sanderson and Jason Berry.

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

#### **New standards, amendments and interpretations adopted by the Company**

No new and/or revised Standards and Interpretations have been required to be adopted, and/or are applicable in the current year by/to the Group and/or Company, as standards, amendments and interpretations which are effective for the financial year beginning on 1 October 2014 are not material to the Company.

#### **New standards, amendments and interpretations not yet adopted**

At the date of authorisation of these financial statements, the following Standards and Interpretations which have not been applied in these financial statements, were in issue but not yet effective for the year presented:

- IFRS 9 in respect of Financial Instruments which will be effective for the accounting periods beginning on or after 1 January 2018.
- IFRS 14 in respect of Regulatory Deferral Accounts which will be effective for accounting periods beginning on or after 1 January 2016.
- IFRS 15 in respect of Revenue from Contracts with Customers which will be effective for accounting periods beginning on or after 1 January 2017.
- Amendments to IFRS 10, IFRS 12 and IAS 28 in respect of the application of the consolidation exemption to investment entities which will be effective for accounting periods beginning on or after 1 January 2016.
- Amendments to IFRS 10 and IAS 28 in respect of the treatment of a Sale or Contribution of Assets between an Investor and its Associate or Joint Venture which will be effective for accounting periods beginning on or after 1 January 2016.
- Amendments to IFRS 11 in respect of Accounting for Acquisitions of Interest in Joint Operations which will be effective for accounting periods beginning on or after 1 January 2016.
- Amendments to IAS 1 in respect of determining what information to disclose in annual financial statements which will be effective for accounting periods beginning on or after 1 January 2016.
- Amendments to IAS 16 and IAS 38 in respect of Clarification of Acceptable Methods of Depreciation and Amortisation which will be effective for accounting periods beginning on or after 1 January 2016.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 1. Principal Accounting Policies (continued)

#### **New standards, amendments and interpretations not yet adopted (continued)**

- Amendments to IAS 16 and IAS 41 in respect of Bearer Plants which will be effective for accounting periods beginning on or after 1 January 2016.

- Amendments to IAS 27 to allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates which will be effective for accounting periods beginning 1 January 2016.

- Annual improvements to IFRS's which will be effective for accounting periods beginning on or after 1 January 2016 as follows:

- IFRS 5 – Changes in methods of disposal
- IFRS 7 – Servicing contracts
- IFRS 7 – Applicability of the amendments to IFRS 7 to condensed interim financial statements
- IAS 19 – Discount rate: Regional market issue
- IAS 34 – Disclosure of information “elsewhere in the interim financial report”

There are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Group and/or Company.

#### **Basis of consolidation**

The consolidated financial information incorporates the financial statements of the Company and its subsidiaries (the “Group”). Control is achieved where the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

Inter-company transactions, balances and unrealised gains on transactions between Group companies are eliminated; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used in line with those used by the Group.

#### **Business combinations**

Business combinations are accounted for using the acquisition method. The consideration for acquisition is measured at the fair values of assets given, liabilities incurred or assumed, and equity instruments issued by the Company in order to obtain control of the acquiree (at the date of exchange). Costs incurred in connection with the acquisition are recognised in profit or loss as incurred. Where a business combination is achieved in stages, previously held interests in the acquiree are re-measured to fair value at the acquisition date (date the Group obtains control) and the resulting gain or loss, is recognised in profit or loss. Adjustments are made to fair values to bring the accounting policies of acquired businesses into alignment with those of the group. The costs of integrating and reorganising acquired businesses are charged to the post acquisition profit or loss where applicable.

#### **Revenue**

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

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

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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 1. Principal Accounting Policies (continued)

#### **Finance Income and Costs**

Finance income and costs are reported on an accruals basis.

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

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

##### ***(i) Pre-licence costs***

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

##### ***(ii) Licence and property acquisition costs***

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

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

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

##### ***(iii) Exploration and evaluation costs***

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

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

If no potentially commercial hydrocarbons are discovered, the exploration asset is written off through the statement of profit or loss and other comprehensive income as a dry hole. If extractable hydrocarbons are found and, subject to further appraisal activity (e.g., the drilling of additional wells), it is probable that they can be commercially developed, the costs continue to be carried as an intangible asset while sufficient/continued progress is made in assessing the commerciality of the hydrocarbons. Costs directly associated with appraisal activity undertaken to determine the size, characteristics and commercial potential of a reservoir following the initial discovery of hydrocarbons, including the costs of appraisal wells where hydrocarbons were not found, are initially capitalised as an intangible asset.

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

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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 1. Principal Accounting Policies (continued)

#### ***(iv) Development costs***

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

#### **Oil and gas properties and other property, plant and equipment**

##### ***(i) Initial recognition***

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

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

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

##### ***(ii) Depreciation/amortisation***

Oil and gas properties are depreciated/amortised on a unit-of-production basis over the total proved developed and undeveloped reserves of the field concerned, except in the case of assets whose useful life is shorter than the lifetime of the field, in which case the straight-line method is applied. Rights and concessions are depleted on the unit-of-production basis over the total proved developed and undeveloped reserves of the relevant area. The unit-of-production rate calculation for the depreciation/amortisation of field development costs takes into account expenditures incurred to date, together with sanctioned future development expenditure. Other property, plant and equipment are generally depreciated on a straight-line basis over their estimated useful lives, which is generally 20 years for refineries, and major inspection costs are amortised over three to five years, which represents the estimated period before the next planned major inspection. Property, plant and equipment held under finance leases are depreciated over the shorter of lease term and estimated useful life. An item of property, plant and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of profit or loss and other comprehensive income when the asset is derecognised. The asset's residual values, useful lives and methods of depreciation/amortisation are reviewed at each reporting period and adjusted prospectively, if appropriate.

##### ***(ii) Major maintenance, inspection and repairs***

Expenditure on major maintenance refits, inspections or repairs comprises the cost of replacement assets or parts of assets, inspection costs and overhaul costs. Where an asset, or part of an asset that was separately depreciated and is now written off is replaced and it is probable that future economic benefits associated with the item will flow to the Group, the expenditure is capitalised. Where part of the asset replaced was not separately considered as a component and therefore not depreciated separately, the replacement value is used to estimate the carrying amount of the replaced asset(s) and is immediately written off. Inspection costs associated with major maintenance programmes are capitalised and amortised over the period to the next inspection. All other day-to-day repairs and maintenance costs are expensed as incurred.

#### **Provision for rehabilitation / Decommissioning Liability**

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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 1. Principal Accounting Policies (continued)

#### **Provision for rehabilitation / Decommissioning Liability (continued)**

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

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

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

If the change in estimate results in an increase in the decommissioning liability and, therefore, an addition to the carrying value of the asset, the Group considers whether this is an indication of impairment of the asset as a whole, and if so, tests for impairment. If, for mature fields, the estimate for the revised value of oil and gas assets net of decommissioning provisions exceeds the recoverable value, that portion of the increase is charged directly to expense. Over time, the discounted liability is increased for the change in present value based on the discount rate that reflects current market assessments and the risks specific to the liability. The periodic unwinding of the discount is recognised in the statement of profit or loss and other comprehensive income as a finance cost. The Company recognises neither the deferred tax asset in respect of the temporary difference on the decommissioning liability nor the corresponding deferred tax liability in respect of the temporary difference on a decommissioning asset.

#### **Taxation**

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

Deferred income taxes are calculated using the liability method on temporary differences. Deferred tax is generally provided on the difference between the carrying amounts of assets and liabilities and their tax bases. However, deferred tax is not provided on the initial recognition of goodwill, nor on the initial recognition of an asset or liability unless the related transaction is a business combination or affects tax or accounting profit. Deferred tax on temporary differences associated with shares in subsidiaries and joint ventures is not provided if reversal of these temporary differences can be controlled by the Company and it is probable that reversal will not occur in the foreseeable future. In addition, tax losses available to be carried forward as well as other income tax credits to the Company are assessed for recognition as deferred tax assets.

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

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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 1. Principal Accounting Policies (continued)

#### Financial Assets

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

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

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

A financial asset is derecognised only where the contractual rights to the cash flows from the asset expire or the financial asset is transferred and that transfer qualifies for derecognition. A financial asset is transferred if the contractual rights to receive the cash flows of the asset have been transferred or the Group retains the contractual rights to receive the cash flows of the asset but assumes a contractual obligation to pay the cash flows to one or more recipients. A financial asset that is transferred qualifies for derecognition if the Group transfers substantially all the risks and rewards of ownership of the asset, or if the Group neither retains nor transfers substantially all the risks and rewards of ownership but does transfer control of that asset.

Derivative instruments are recorded at cost, and adjust for their market value as applicable. They are assessed for any equity and debt component which is subsequently accounted for in accordance with IFRS's. The Group's and Company's only derivative is considered to be the Equity Swap Arrangement as detailed in Note 16, which is accounted for on a fair value basis in accordance with the terms of the agreement, being based around the Company's share price as traded on AIM.

#### Financial Liabilities

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

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

#### Borrowing costs

Where funds are borrowed specifically to finance a project, the amount capitalised represents the actual borrowing costs incurred. Where surplus funds are available for a short term from funds borrowed specifically to finance a project, the income generated from the temporary investment of such amounts is also capitalised and deducted from the total capitalised borrowing costs. Where the funds used to finance a project form part of general borrowings, the amount capitalised is calculated using a weighted average of rates applicable to relevant general borrowings of the Group during the period.

All other borrowing costs are recognised in the statement of profit or loss and other comprehensive income in the period in which they are incurred.

Even though exploration and evaluation assets can be qualifying assets, generally, they do not meet the 'probable economic benefits' test and also are rarely debt funded. Any related borrowing costs incurred during this phase are generally recognised in the statement of profit or loss and other comprehensive income in the period in which they are incurred.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 1. Principal Accounting Policies (continued)

#### Inventories

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

#### Cash and Cash Equivalents

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

#### Share-Based Payments

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

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

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

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

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

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

#### Equity

Equity comprises the following:

"Share capital" representing the nominal value of equity shares.

"Share premium" representing the excess over nominal value of the fair value of consideration received for equity shares, net of expenses of the share issue.

"Share based payment reserve" represents the value of equity benefits provided to employees and directors as part of their remuneration and provided to consultants and advisors hired by the Group from time to time as part of the consideration paid.

"Revaluation reserve" represents the unrealised gain or loss on fair/market value movement on available for sale investments, derivative financial instruments and other assets which are valued at their fair value at the balance sheet date.

"Retained earnings" represents retained profits and (losses).

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 1. Principal Accounting Policies (continued)

#### Foreign Currencies

Transactions in foreign currencies are translated at the exchange rate ruling at the date of the transaction. Monetary assets and liabilities in foreign currencies are translated at the rates of exchange ruling at the balance sheet date. Non-monetary items that are measured at historical cost in a foreign currency are translated at the exchange rate at the date of the transaction. Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Any exchange differences arising on the settlement of monetary items or on translating monetary items at rates different from those at which they were initially recorded are recognised in the profit or loss in the period in which they arise. Exchange differences on non-monetary items are recognised in other comprehensive income to the extent that they relate to a gain or loss on that non-monetary item taken to other comprehensive income, otherwise such gains and losses are recognised in the income statement.

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

#### Significant accounting judgements, estimates and assumptions

The preparation of the Group's consolidated financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the accompanying disclosures, and the disclosure of contingent liabilities at the date of the consolidated financial statements. Estimates and assumptions are continuously evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

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

Changes in estimates are accounted for prospectively.

#### (i) Judgements

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

##### (a) Contingencies

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

##### (ii) Estimates and assumptions

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



## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 1. Principal Accounting Policies (continued)

#### Significant accounting judgements, estimates and assumptions (continued)

##### **(a) Hydrocarbon reserve and resource estimates**

Hydrocarbon reserves are estimates of the amount of hydrocarbons that can be economically and legally extracted from the Group's oil and gas properties. The Group estimates its commercial reserves and resources based on information compiled by appropriately qualified persons relating to the geological and technical data on the size, depth, shape and grade of the hydrocarbon body and suitable production techniques and recovery rates. Commercial reserves are determined using estimates of oil and gas in place, recovery factors and future commodity prices, the latter having an impact on the total amount of recoverable reserves and the proportion of the gross reserves which are attributable to the host government under the terms of the Production-Sharing Agreements. Future development costs are estimated using assumptions as to the number of wells required to produce the commercial reserves, the cost of such wells and associated production facilities, and other capital costs. The current long-term Brent oil price assumption used in the estimation of commercial reserves is US\$80/bbl. The carrying amount of oil and gas development and production assets at 31 December 2015 is shown in Note 12.

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

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

##### **(b) Exploration and evaluation expenditures**

The application of the Group's accounting policy for exploration and evaluation expenditure requires judgement to determine whether future economic benefits are likely, from future either exploitation or sale, or whether activities have not reached a stage which permits a reasonable assessment of the existence of reserves. The determination of reserves and resources is itself an estimation process that involves varying degrees of uncertainty depending on how the resources are classified. These estimates directly impact when the Group defers exploration and evaluation expenditure. The deferral policy requires management to make certain estimates and assumptions about future events and circumstances, in particular, whether an economically viable extraction operation can be established. Any such estimates and assumptions may change as new information becomes available. If, after expenditure is capitalised, information becomes available suggesting that the recovery of the expenditure is unlikely, the relevant capitalised amount is written off in the statement of profit or loss and other comprehensive income in the period when the new information becomes available.

##### **(c) Units of production (UOP) depreciation of oil and gas assets**

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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 1. Principal Accounting Policies (continued)

#### Significant accounting judgements, estimates and assumptions (continued)

##### **(c) Units of production (UOP) depreciation of oil and gas assets**

The life of each item, which is assessed at least annually, has regard to both its physical life limitations and present assessments of economically recoverable reserves of the field at which the asset is located. These calculations require the use of estimates and assumptions, including the amount of recoverable reserves and estimates of future capital expenditure. The calculation of the UOP rate of depreciation/amortisation will be impacted to the extent that actual production in the future is different from current forecast production based on total proved reserves, or future capital expenditure estimates change. Changes to proved reserves could arise due to changes in the factors or assumptions used in estimating reserves, including:

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

##### **(d) Recoverability of oil and gas assets**

The Group assesses each asset or cash generating unit (CGU) (excluding goodwill, which is assessed annually regardless of indicators) each reporting period to determine whether any indication of impairment exists. Where an indicator of impairment exists, a formal estimate of the recoverable amount is made, which is considered to be the higher of the fair value less costs of disposal (FVLCD) and value in use (VIU). The assessments require the use of estimates and assumptions such as long-term oil prices (considering current and historical prices, price trends and related factors), discount rates, operating costs, future capital requirements, decommissioning costs, exploration potential, reserves (see (a) *Hydrocarbon reserves and resource estimates* above) and operating performance (which includes production and sales volumes). These estimates and assumptions are subject to risk and uncertainty. Therefore, there is a possibility that changes in circumstances will impact these projections, which may impact the recoverable amount of assets and/or CGUs.

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

##### **(e) Decommissioning costs**

Decommissioning costs will be incurred by the Group at the end of the operating life of some of the Group's facilities and properties. The Group assesses its decommissioning provision at each reporting date. The ultimate decommissioning costs are uncertain and cost estimates can vary in response to many factors, including changes to relevant legal requirements, the emergence of new restoration techniques or experience at other production sites. The expected timing, extent and amount of expenditure may also change — for example, in response to changes in reserves or changes in laws and regulations or their interpretation.

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

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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 1. Principal Accounting Policies (continued)

#### Significant accounting judgements, estimates and assumptions (continued)

##### *(f) Fair value measurement*

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

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

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

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

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs. From time to time external valuers are used to assess FVLCD of the Group's non-financial assets. Involvement of external valuers is decided upon by the valuation committee after discussion with and approval by the Company's Audit Committee. Selection criteria include market knowledge, reputation, independence and whether professional standards are maintained. Valuers are normally rotated every three years. The valuation committee decides, after discussions with the Group's external valuers, which valuation techniques and inputs to use for each case.

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

##### **Going Concern**

The Directors noted the losses that the Group has made for the Year Ended 30 September 2015. The Directors have prepared cash flow forecasts for the period ending 28 February 2017 which take account of the current cost and operational structure of the Group.

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

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

It is the prime responsibility of the Board to ensure the Group remains a going concern. At 30 September 2015 the Company had cash and cash equivalents of £4,590,000 and borrowings of £111,000. The Company has minimal contractual expenditure commitments and the Board considers the present funds sufficient to maintain the working capital of the Company for a period of at least 12 months from the date of signing the Annual Report and Financial Statements. For these reasons the Directors adopt the going concern basis in the preparation of the Financial Statements.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 2. Business Combinations

On 19 October 2014 through UK Oil and Gas Investments Plc, the Group acquired 100 per cent of the entire issued share capital of Northern Petroleum (GB) Limited, NP Weald Limited and NP Solent Limited. The companies were re-named UKOG (GB) Limited, UKOG Weald Limited and UKOG Solent Limited.

Through the business combination the Group acquired the following assets:

- The Horndean (UKOG 10%) and Avington (UKOG 5%) onshore producing oil fields, producing around 20 barrels of oil per day (“bopd”) net to UKOG; both fields are operated by IGas.
- Offshore Isle of Wight exploration licence, P1916 (UKOG 77.5% and operator), containing the significant, drill-ready M prospect, with primary targets in the Jurassic Upper Portland Limestone and Triassic Sherwood sandstone.
- The Baxters Copse (UKOG 50%, IGas operator, PEDL233) and Markwells Wood (UK 100% and operator, PEDL126) onshore oil discoveries.

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

	Northern Petroleum (GB) Limited	NP Weald Limited	NP Solent Limited	Total Fair Value
	Fair Value	Fair Value	Fair Value	Fair Value
	£'000	£'000	£'000	£'000
Intangible Assets: Exploration Costs	-	264	32	296
Tangible Assets: Oil Properties	1,609	-	-	1,609
Cash and cash equivalents	19	-	-	19
Trade and other receivables	78	1	14	93
Other current assets	1	-	-	1
Trade and Other Payables	(101)	-	(46)	(147)
Provisions	(282)	(77)	-	(359)
Net identifiable assets/(liabilities) acquired at fair value	1,324	188	-	1,512
Goodwill on purchase	-	-	-	-
Total consideration	1,324	188	-	1,512

#### Total cash outflow on the acquisition is as follows:

Cash paid	1,512
Net cash acquired with the subsidiaries	(19)
<b>Net consolidated cash flow</b>	<b>1,493</b>

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 3. Segment Reporting

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

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

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

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

In the previous year to 30 September 2014, the Company was operating as a single UK based segment with a single primary activity to invest in businesses so as to generate a return for the shareholders. The revenue from this segment, generated from management services in the UK, was £7,000 during that year. As such no comparative segment information is considered useful to disclose.

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

<b>Group</b>	<b>Oil production &amp; exploration</b>	<b>Oil exploration &amp; evaluation</b>	<b>Corporate &amp; Administrative</b>	<b>Consolidated</b>
<b>Year ended 30 September 2015</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
<b>Revenue</b>				
External Customers	240	-	-	240
<b>Total revenue</b>	<b>240</b>	<b>-</b>	<b>-</b>	<b>240</b>
<b>Results</b>				
Depletion & impairment	(82)	-	-	(82)
Share of associates loss	-	(69)	-	(69)
<b>Profit/(loss) before &amp; after taxation</b>	<b>37</b>	<b>(84)</b>	<b>(1,648)</b>	<b>(1,695)</b>
<b>Segment assets</b>	<b>1,907</b>	<b>4,078</b>	<b>5,596</b>	<b>11,581</b>
<b>Segment liabilities</b>	<b>(297)</b>	<b>(78)</b>	<b>(424)</b>	<b>(799)</b>
<b>Other disclosures;</b>				
Investment in associate	-	352	-	352
Investment in available for sale investments	-	580	-	580
Capital expenditure (1)	251	802	-	1,053

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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 4. Operating Loss

Group	2015 £'000	2014 £'000
Operating (loss) is stated after charging:		
– Directors remuneration	628	472
– Employee Benefit Trust charge	-	13
– Auditors' remuneration		
Audit-related assurance services	25	14
Other compliance services	-	-
Tax compliance	-	-
– Depletion & impairment of oil & gas properties	82	-

### 5. Directors and Employees

The Company employs the services of 3 Directors (2014: 3).

Remuneration in respect of these executive and non-executive Directors was:

Group	2015 £000	2014 £000
<b>Employment costs, including Directors, during the year:</b>		
Wages and salaries	34	52
Consultancy fees	594	188
Share based payments	-	232
	628	472
<b>Average number of persons, including executive Directors employed</b>	<b>No.</b>	<b>No.</b>
Administration	3	3
	3	3
<b>Directors' remuneration</b>	<b>£000</b>	<b>£000</b>
Emoluments	628	470
	<b>No.</b>	<b>No.</b>
Number of Directors in money purchase pension schemes	-	-

The amounts set out above include remuneration in respect of the directors' are as follows:

	2015 £'000	2014 £'000
David Lenigas (resigned 8 July 2015)	170	142
Donald Strang	245	142
Jason Berry	162	118
Stephen Sanderson (appointed 8 July 2015)	51	-
David Wither (resigned 30 June 2014)	-	70
<b>Total Directors Emoluments</b>	628	472

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 6. Finance costs

	2015	2014
Group	£'000	£'000
Loan interest	35	-
Loan arrangement fee	46	-
<b>Total finance costs</b>	<b>81</b>	<b>-</b>

### 7. Income Tax

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

Group	2015	2014
	£'000	£'000
Loss for the year before tax	(1,695)	(907)
Tax rate	20/21%	21/23%
Expected tax credit	(348)	(200)
Differences between capital allowances and depreciation	-	-
Expenses not deductible for tax purposes	78	77
Future income tax benefit not brought to account	270	123
Actual tax expense	-	-

No deferred tax asset has been recognised because there is uncertainty of the timing of suitable future profits against which they can be recovered.

### 8. Loss per Share

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

Group	2015	2014
	£'000	£'000
(Loss) attributable to ordinary shareholders	(1,695)	(907)
	<b>Number</b>	<b>Number</b>
Weighted average number of ordinary shares for calculating basic loss per share	1,770,767,449	841,904,149
	<b>Pence</b>	<b>Pence</b>
Basic and diluted loss per share	(0.10)	(0.11)

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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 9. Exploration & evaluation assets

	Group £'000	Company £'000
<b>Cost &amp; Net Book Value</b>		
At 1 October 2013 & at 30 September 2014	-	-
On Acquisition of Northern Petroleum Companies	296	-
Additions	1,013	662
<b>Net Book Value At 30 September 2015</b>	<b>1,309</b>	<b>662</b>

During the year, there has been no impairment charged, or required to be. The Directors have assessed the fair value of the exploration & evaluation assets as at 30 September 2015, and have concluded at this time there is no requirement to impair and reduce the carrying value whilst they continue to explore and assess these licence areas, further to the detail below.

Exploration and evaluation activity involves the search for hydrocarbon resources, the determination of technical feasibility and the assessment of commercial viability of an identified resource. The additions during the year reflect the multiple acquisitions and associated exploration and evaluation activities. As this point the Company is still assessing the potential of these assets, and will continue to develop and evaluate these assets in the coming year. Since the acquisition date there has been no material changes to the Licence areas. The directors therefore consider that no impairment is required at 30 September 2015.

### 10. Oil & gas properties

	Group £'000
<b>Cost</b>	
At 1 October 2013 & at 30 September 2014	-
On Acquisition of Northern Petroleum Companies	1,608
Additions	40
At 30 September 2015	1,648
<b>Depletion &amp; impairment</b>	
At 1 October 2013 & at 30 September 2014	-
Depletion charge	(82)
At 30 September 2015	(82)
<b>Net Book Value</b>	
<b>At 30 September 2014</b>	-
<b>At 30 September 2015</b>	<b>1,566</b>

#### Impairment review

The Oil & Gas properties comprise the assets acquired as a result of the acquisition of the Northern Petroleum Companies, in particular the Horndean and Avington oil fields. The Directors have carried out an impairment review as at 30 September 2015, and determined that an impairment charge is not currently required. The Directors based this assessment on continuing production from Horndean and in the case of Avington the operational optimisation that is ongoing to improve operational efficiencies.



## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 11. Investment in Subsidiaries

Company	2015 £'000	2014 £'000
<b>Cost and net book amount</b>		
At 1 October	-	-
Additions in the year	1,512	-
At 30 September	1,512	-

The Company as at 30 September 2014 had no interest in any subsidiary companies. The Company acquired on 19 October 2014, the following subsidiary companies, as detailed in the Business Combination Note 2, and hold more than 50 per cent of the share capital of the following companies as at 30 September 2015:

Company	Country of Registration	Proportion held	Functional Currency	Nature of business
UKOG (GB) Limited	UK	100%	GB£	Oil production
UKOG Solent Limited	UK	100%	GB£	Oil exploration
UKOG Weald Limited	UK	100%	GB£	Oil exploration

### 12. Investment in Associate

Group & Company	2015 £'000	2014 £'000
Carrying Value as at 1 October	-	-
Re-classification from available for sale investments	1,780	-
Equity additions at cost	352	-
Share of associates loss for the year	(69)	-
Carrying value as at 30 September	2,063	-

On 19 December 2013, the Company completed the acquisition of a 7.5% shareholding in Horse Hill Developments Ltd ("Horse Hill"), a company incorporated and resident in the UK, with farm in interests in the Weald Basin UK, for exploration and production of petroleum under licence within the Horse Field, for a cash consideration of £450,000. On 12 August 2014, the Company acquired an additional 12.5% interest in Horse Hill for a further cash consideration of £750,000, thus increasing the Company's holding to 20%.

On 6 March 2015, the Company acquired a further 8% interest in Horse Hill for a cash consideration of £580,000, thus increasing the Company's holding to 28%. At this point the interest was deemed to qualify as that of an associate company and the investment re-classified from this date. A further 2% holding was acquired on 12 March 2015, for £352,000 payable by the issue of 44million Ordinary Shares in UK Oil & Gas Investments PLC, at a price of 0.8pence per share. This acquisition took the Company's interest in Horse Hill to a 30% shareholding.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 12. Investment in Associate (continued)

Details of the Group & Company's associate at 30 September 2015 are as follows:

Name	Place of Incorporation	Proportion held	Date associate interest acquired	Reporting Date of associate	Principal activities
Horse Hill Developments Ltd	UK	30.0%	06/03/15	31/12/15	Oil exploration

Summarised financial information for the Group & Company's associate, where made publicly available, as at 30 September 2015 is given below:

	For the period ended 30 September 2015			As at 30 September 2015	
	Revenue £'000	(Loss) £'000	Total other comprehensive income £'000	Assets £'000	Liabilities £'000
Horse Hill Developments Ltd	-	(300)	-	6,861	(3,589)

### 13. Available for Sale Investments

Group & Company	2015 £'000	2014 £'000
<b>Investment in unlisted securities</b>		
Valuation at 1 October	1,568	-
Additions at cost	580	1,568
Re-classification of investment to associate	(1,780)	-
Valuation at 30 September	368	1,568

On 19 December 2013, the Company completed the acquisition of a 7.5% shareholding in Horse Hill Developments Ltd ("Horse Hill"), a company incorporated and resident in the UK, with farm in interests in the Weald Basin UK, for exploration and production of petroleum under licence within the Horse Field, for a cash consideration of £450,000. On 12 August 2014, the Company acquired an additional 12.5% interest in Horse Hill for a further cash consideration of £750,000, thus increasing the Company's holding to 20%.

On 16 May 2014, the Company completed the acquisition of a strategic 6% shareholding in Angus Energy Ltd, a company incorporated in Scotland and resident in the UK, for a consideration of £368,000, payable by the issue of 46million shares in the Company.

On 6 March 2015, the Company acquired a further 8% interest in Horse Hill for a cash consideration of £580,000, thus increasing the Company's holding to 28%. At this point the interest was deemed to qualify as that of an associate company and the investment re-classified from this date

Horse Hill Development Ltd and Angus Energy Ltd are not listed on any stock exchange.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 14. Inventory

Group	2015 £'000	2014 £'000
Inventories – Crude Oil	2	-
<b>Total</b>	<b>2</b>	<b>-</b>

### 15. Trade and Other Receivables

	Group		Company	
	2015 £'000	2014 £'000	2015 £'000	2014 £'000
<b>Current trade and other receivables</b>				
Trade debtors	26	6	26	6
Other debtors	609	787	609	787
Loans to related parties (see Note 26)	901	370	901	370
Loans to subsidiary companies	-	-	452	-
Prepayments and accrued income	147	251	132	251
<b>Total</b>	<b>1,683</b>	<b>1,414</b>	<b>2,120</b>	<b>1,414</b>

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

### 16. Derivative Financial Instrument

Group & Company Equity Swap Agreement	2015 £'000	2014 £'000
Fair value at 1 October	184	-
Cost of equity swap arrangement	-	250
Settled during the year	(201)	(92)
Gain/(loss) on settled instalments	61	(18)
Transfer to income statement	(44)	-
Fair value adjustment at 30 September	-	44
<b>Fair value carried forward at 30 September</b>	<b>-</b>	<b>184</b>

On 13 December 2013 the Company announced that it had entered into an equity swap agreement ("the Equity Swap Agreement") with YAGM over 62,499,996 of the Subscription Shares ("the Swap Shares"). In return for a payment by the Company to YAGM of £250,000, twelve monthly settlement payments in respect of such payment were to be made by YAGM to the Company, or by the Company to YAGM, based on a formula related to the difference between the prevailing market price (as defined in the Equity Swap Agreement) of the Company's ordinary shares in any month and a 'benchmark price' that is 10% above the Subscription Price of 0.8p. Thus the funds received by the Company in respect of the Swap Shares are dependent on the future price performance of the Company's ordinary shares.

By 30 September 2014, 26,041,665 shares had been closed out for net proceeds of £92,000 which resulted in a loss of £18,000 against the benchmark price, taken to the income statement. The remaining balance was fair valued at 30 September 2014, resulting in a fair uplift adjustment based on the benchmark price and formula of the arrangement, with the unrealised gain credited to revaluation reserve and highlighted in other comprehensive income.

The Company agreed to close out the equity swap agreement on 27 October 2014, for a single final payment of £201,250, resulting in a gain above the benchmark price of £61,250. No further equity swap arrangements were made during the year to 30 September 2015.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 17. Cash and Cash Equivalents

	Group		Company	
	2015	2014	2015	2014
	£'000	£'000	£'000	£'000
Cash at bank and in hand	4,590	982	4,461	982
<b>Total</b>	<b>4,590</b>	<b>982</b>	<b>4,461</b>	<b>982</b>

### 18. Trade and Other Payables

	Group		Company	
	2015	2014	2015	2014
	£'000	£'000	£'000	£'000
<b>Current trade and other payables</b>				
Trade creditors	117	102	101	102
Accruals and deferred income	212	394	212	394
<b>Total</b>	<b>329</b>	<b>496</b>	<b>313</b>	<b>496</b>

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

### 19. Borrowings

	Group		Company	
	2015	2014	2015	2014
	£'000	£'000	£'000	£'000
YAGM Debt facility	111	-	111	-
<b>Total</b>	<b>111</b>	<b>-</b>	<b>111</b>	<b>-</b>

The Company entered into an unsecured US\$10 million debt facility to be provided by YA Global Master SPV Ltd ("YAGM") on 28 October 2014 to fund further investment in the UK oil and gas sector in accordance with the Company's investing policy (the "YAGM Facility"). The facility is available to the Company for three years from the date of the agreement. Any drawdowns by the Company under the YAGM Facility are to be repaid in twelve equal monthly amounts ("Monthly Repayment Amount") and carry an annual interest rate of 10 per cent.

UKOG is entitled to pay the Monthly Repayments Amounts either in cash, or at the Company's sole election, by means of conversion of the Monthly Repayment Amount into new ordinary shares, to be issued at a conversion price equal to 95% of the average of the lowest 5 daily volume weighted average prices ("VWAP") during the 15 trading days prior to the scheduled repayment date. All drawdowns under the YAGM Facility are subject to the prior approval of YAGM.

The Company drew down US\$1 million under the YAGM Facility on signing the agreement, which is repayable at the rate of US\$83,333 per month on or before 1 November 2015, together with accrued interest. This drawdown has been repaid in full after the year end.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 20. Provisions - Decommissioning

<b>Group</b>	<b>2015</b>	<b>2014</b>
	<b>£'000</b>	<b>£'000</b>
As at 1 October	-	-
Acquired on acquisition of subsidiaries	359	-
<b>As at 30 September</b>	<b>359</b>	<b>-</b>

The amount provided at 30 September 2015 represents the Group's share of decommissioning liabilities in respect of the producing Horndean and Avington fields, and the Markwell's Wood and Havant drilling sites.

The Company makes full provision for the future cost of decommissioning oil production facilities and pipelines on a discounted basis on the installation of those facilities. The decommissioning provision represents the present value of decommissioning costs relating to oil and gas properties. At this point in time it is uncertain as to when some of these decommissioning costs will occur given current plans by the Company which may change when operations cease. Therefore the Directors have taken a conservative approach and not discounted these values. These provisions have been created based on the Company's internal estimates. Assumptions based on the current economic environment have been made, which management believes are a reasonable basis upon which to estimate the future liability. These estimates are reviewed regularly to take into account any material changes to the assumptions. However, actual decommissioning costs will ultimately depend upon future market prices for the necessary decommissioning works required that will reflect market conditions at the relevant time. Furthermore, the timing of decommissioning is likely to depend on when the fields cease to produce at economically viable rates. This, in turn, will depend upon future oil and gas prices, which are inherently uncertain.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 21. Share Capital

Ordinary Shares	Number of ordinary shares	Nominal Value £	Total Value £'000
Issued at 30 September 2013	<b>1,107,117,869</b>	<b>0.001</b>	<b>1,107</b>
<i>Capital Reorganisation on 25 November 2013 (see (1) below);</i>			
- Sub-division into deferred shares of 0.001p	109,604,669,031	0.00001	1,096,047
- Sub-division into ordinary shares of 0.001p	1,107,117,869	0.00001	11
Consolidation on 10:1 basis, A ordinary shares of 0.01p each	<b>110,711,787</b>	<b>0.0001</b>	<b>11</b>
A Ordinary shares carried forward at 25 November 2013	110,711,787	0.0001	11
On 25 November 2013, placing for cash at 0.03p per share	500,000,000	0.0001	50
On 5 December 2013, placing for cash at 0.3p per share	66,666,666	0.0001	7
On 16 December 2013, placing for cash at 0.8p per share	130,000,000	0.0001	13
On 6 January 2014, conversion of B ordinary shares at 0.01p per share	18,390	0.0001	-
On 3 February 2014, issue of shares at 0.8p per share for acquisition	46,000,000	0.0001	4
On 28 May 2014, placing for cash at 0.3p per share	233,333,333	0.0001	23
On 27 June 2014, warrants exercised at 0.35p per share	6,499,999	0.0001	1
On 25 July 2014, placing for cash at 1p per share	200,000,000	0.0001	20
On 13 August 2014, warrants exercised at 0.35p per share	833,333	0.0001	-
On 29 September 2014, issue for cash at 0.01p per share	129,000,000	0.0001	13
Issued at 30 September 2014	<b>1,423,063,508</b>	<b>0.0001</b>	<b>142</b>
On 15 October 2014, placing for cash at 1.2p per share	<b>166,666,667</b>	0.0001	<b>17</b>
On 28 November 2014, warrants exercised at 0.35p per share	<b>59,333,334</b>	0.0001	<b>6</b>
On 13 March 2015, issue of shares at 0.8p per share for acquisition	<b>44,000,000</b>	0.0001	<b>4</b>
On 17 April 2015, exercise of warrants and options at 0.4p, & 1.48p per share	<b>70,553,844</b>	0.0001	<b>7</b>
On 10 June 2015, placing for cash at 2.25p per share	<b>266,666,667</b>	0.0001	<b>27</b>
<b>Issued at 30 September 2015</b>	<b>2,030,284,020</b>	<b>0.0001</b>	<b>203</b>

(1) On 25 November 2013, at a General Meeting the shareholders approved a capital reorganisation. The existing ordinary shares of 0.1p were subdivided into one A ordinary share of 0.001p each and 99 deferred shares of 0.001p. These 0.001p A ordinary shares were then each consolidated into 0.01p A ordinary shares on a 10:1 basis. The rights attached to the new A ordinary shares are in all material aspects the same as the rights attaching to the existing A ordinary shares. In addition the B ordinary shares were also subdivided and consolidated on the same basis as the A ordinary shares into 0.01p B Ordinary shares and deferred shares of 0.001p.

(2) On 31 March 2014, A ordinary shares were re-designated as Ordinary shares from that date, and remained in all material aspects the same as the rights which previously attached to the A ordinary shares.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 21. Share Capital (continued)

#### B Ordinary Shares

At 1 October 2013, there were 183,902 B ordinary shares in issue, post the General Meeting of 25 November 2013 capital reorganisation, there were 18,390 B ordinary shares in issue, which were converted to A ordinary shares on 6 January 2014. After the conversion this class of share was subsequently cancelled.

#### Deferred shares

At 1 October 2013, there were 10,487,624,769 deferred shares of 0.1p in issue. Post the General Meeting of 25 November 2013 capital reorganisation, and the resultant conversion and subdivisions by way of relating to the A ordinary and B ordinary shares, the existing 0.1p deferred shares were subdivided into 0.001p deferred shares totalling 1,048,762,476,900. As a result of the reorganisation of the A and B ordinary shares, a further 109,604,669,031 and 18,206,298 deferred shares of 0.001p were issued. These deferred shares do not carry voting rights.

#### Total Ordinary and Deferred Shares

The issued share capital as at 30 September 2015 is as follows:

	Number of shares	Nominal Value £	Total Value £'000
Ordinary shares	2,030,284,020	0.0001	203
Deferred shares	1,158,385,352,229	0.00001	11,584
			<u>11,787</u>

#### Share Options

During the year 100 million options were granted (2014: 70 million).

As at 30 September 2015 the options in issue were:

Exercise price	Expiry date	Options in issue 30 September 2015
0.4p	31 December 2017	100,000,000
0.4p	28 November 2020	42,500,000
1.15p	22 August 2019	10,000,000
		<u>152,500,000</u>

17.5 million options were exercised and no options were cancelled during the year (2014: nil).

No options lapsed during the year (2014: 82,970,045 options).

#### Warrants

As at 30 September 2014, 59,333,334 warrants were in issue, all of these warrants were exercised on 28 November 2014, at 0.35p per share.

No warrants lapsed during the year. (2014: 5 million warrants).

On 28 October 2014, 13,053,844 warrants with an exercise price of 1.48p were issued, and on 20 November 2014, 40,000,000 warrants with an exercise price of 0.4p were issued. All of these warrants issued during the year were exercised on 17 April 2015.

A further 26,666,667 warrants were issued on 10 June 2015, with an exercise price of 2.25p and expiry date of 10 June 2018. These warrants remain the only warrants outstanding as at 30 September 2015.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 21. Share Capital (continued)

#### Employee Benefit Trust

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

Accordingly, the trustees of the EBT subscribed for 129,000,000 new ordinary shares of 0.01p each in the Company, at par value per share at an aggregate cost to the Company of £12,900, such shares representing 9.07% of the existing issued share capital of the Company (at that date). The shares held in the EBT are intended to be used to satisfy future awards made by the Company's Remuneration Committee under the share incentive scheme.

No further issue of ordinary shares was made to the EBT during the year ended 30 September 2015.

### 22. Share-Based Payments

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

	At 1 October 2014 No. millions	Issued during the year No. million	Exercised during the year No. millions	At 30 September 2015 No. millions	Exercise price £	Date from which exercisable	Expiry date
<b>Share options</b>							
Donald Strang	10	-	-	10	0.0040	28/11/2013	28/11/2020
David Lenigas	10	-	-	10	0.0040	28/11/2013	28/11/2020
Jason Berry	10	-	-	10	0.0115	22/08/2014	22/08/2019
Stephen Sanderson	-	25	-	25	0.0040	21/01/2015	31/12/2017
	30	-	-	30			
Consultants	40	-	(17.5)	22.5	0.0040	28/11/2013	28/11/2020
Consultants	-	75	-	75	0.0040	21/01/2015	31/12/2017
	70	100	(17.5)	152.5			

The share price range during the year was £0.0035 to £0.0310 (2014 - £0.0006 to £0.0170).

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

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

	Risk free rate	Share price volatility	Expected life	Share price at date of grant
28 November 2013	2.3%	248.6%	7 years	£0.0040
22 August 2014	2.3%	248.6%	5 years	£0.0112
21 January 2015	2.3%	251.4%	2.95 years	£0.0039

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



## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 22. Share Based Payments (continued)

The Company recognised total expenses of £378,000 (2014: £351,000) relating to equity-settled share-based payment transactions during the year, and £70,000 (2014: £866,000) was transferred via equity to retained earnings on the exercising or lapse of options during the year.

### 23. Financial Instruments and Risk Analysis

#### Financial Assets by Category

The IAS 39 categories of financial asset included in the balance sheet and the headings in which they are included are as follows:

<b>Current assets - Group</b>	<b>2015</b>	<b>2014</b>
	<b>£000</b>	<b>£000</b>
Inventory	2	-
Loans and receivables	1,683	1,414
Derivative financial instrument	-	184
Cash and cash equivalents	4,590	982
	<u>6,275</u>	<u>2,580</u>

#### Financial Liabilities by Category

The IAS 39 categories of financial liability included in the balance sheet and the headings in which they are included are as follows:

<b>Current liabilities - Group</b>		
Financial liabilities measured at amortised cost	<u>440</u>	<u>496</u>

The group is exposed to market risk through its use of financial instruments and specifically to credit risk, and liquidity risk which result from both its operating and investing activities. The group's risk management is coordinated at its head office, in close co-operation with the board of Directors, and focuses on actively securing the group's short to medium term cash flows by minimising the exposure to financial markets. Long term financial investments are managed to generate lasting returns. The group does not actively engage in the trading of financial assets for speculative purposes nor does it write options. The most significant financial risks to which the group is exposed to are described below.

#### Interest Rate Sensitivity

The group is not substantially exposed to interest rate sensitivity, other than in relation to interest bearing bank accounts. The group does have a debt facility as described in Note 19, which incurs interest at a fixed rate.

#### Credit Risk Analysis

The group's exposure to credit risk is limited to the carrying amount of trade receivables. The group continuously monitors defaults of customers and other counterparties, identified either individually or by Company, and incorporates this information into its credit risk controls. Where available at reasonable cost, external credit ratings and/or reports on customers and other counterparties are obtained and used. Group's policy is to deal only with creditworthy counterparties. Group management considers that trade receivables that are not impaired for each of the reporting dates under review are of good credit quality, including those that are past due. None of the group's financial assets are secured by collateral or other credit enhancements. The credit risk for liquid funds and other short-term financial assets is considered negligible, since the counterparties are reputable banks with high quality external credit ratings.

#### Liquidity risk analysis

The group's continued future operations depend on the ability to raise sufficient working capital through the issue of equity share capital. The Directors are confident that adequate funding will be forthcoming with which to finance operations. Controls over expenditure are carefully managed. The group also has at its disposal a Debt Facility as detailed in Note 19, on which the Group repaid in full after the year end. No further drawdowns in relation to this facility have been made.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 23. Financial Instruments and Risk Analysis (continued)

#### Capital Management Policies

The group's capital management objectives are to:

- Ensure the group's ability to continue as a going concern; and
- Provide a return to shareholders

The group monitors capital on the basis of the carrying amount of equity less cash and cash equivalents.

#### Commodity price risk

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

#### Commodity price sensitivity

The table below summarises the impact on profit before tax for changes in commodity prices. The analysis is based on the assumption that the crude oil price moves 10% resulting in a change of US\$4.50/bbl (2014: N/A), with all other variables held constant. Reasonably possible movements in commodity prices were determined based on a review of the last two years' historical prices and economic forecasters' expectations.

Increase/decrease in crude oil prices	Effect on profit before tax for the year ended 30 September 2015 Increase/(Decrease)	Effect on profit before tax for the year ended 30 September 2014 Increase/(Decrease)
	£'000	£'000
Increase US\$4.50/bbl (2014: N/A)	20	-
Decrease US\$4.50/bbl (2014: N/A)	(20)	-

### 24. Commitments & Contingent Liabilities

As at 30 September 2015, the Group had the following material commitments;

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

There were no contingent liabilities at 30 September 2015.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 25. Events after the Reporting Date

On 21 October 2015, the Company appointed Kiran Morzaria as an Executive Director, and Donald Strang resigned as a Director.

On 12 November 2015, the Company's Ordinary Shares were admitted for trading to the ISDX Growth Market.

On 18 November 2015, the Company announced that it has received final regulatory consent from the Oil and Gas Authority ("OGA") to acquire a 20% interest in UK onshore Weald Basin licence PEDL143, via the previously announced farm-in with Egdon Resources U.K. Limited. The Company will pay a 40% share of the Holmwood-1 exploration/drilling costs in order to acquire a full 20% working interest in PEDL143 from Egdon.

On 18 December 2015, the Company announced that it has received final regulatory consent from the Oil and Gas Authority ("OGA") to acquire a further 10% interest in UK onshore Weald Basin licence PEDL143, via the previously announced farm-in with Warwick Energy Exploration and Production Limited. The Company will pay a consideration of £25,000 and a 20% share of the Holmwood-1 exploration drilling costs in order to acquire a full 10% working interest in PEDL143 from Warwick.

On the 23 February Regency Mines Plc acquired a 5% interest in Horse Hill Development Ltd ("HHDL") from Angus Energy PLC ("Angus") for a consideration of £400,000. This has reduced Angus's stake in HHDL to 12%. UKOG has a 6% equity holding in Angus which is held at a carrying value of £368,000, As a result of this transaction UKOG indirect equity stake in HHDL will have decreased 19.96%.

### 26. Related Party Transactions

The company had the following amounts outstanding from its investee companies (Note 15) at 30 September:

	2015 £'000	2014 £'000
Horse Hill Development Ltd ("Horse Hill")	901	260
Angus Energy Ltd ("Angus")	-	110
	901	370

The above loans outstanding are included within trade and other receivables, Note 15. The loan to Horse Hill has been made in accordance with the terms of the investment agreement whereby it accrues interest daily at the Bank of England base rate and is repayable out of future cashflows.

#### *Remuneration of Key Management Personnel*

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

	2015 £'000	2014 £'000
Short-term employee benefits	728	240
Share-based payments	132	232
	860	472

### 27. Ultimate Controlling Party

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

### 28. Profit and loss account of the parent company

As permitted by section 408 of the Companies Act 2006, the profit and loss account of the parent company has not been separately presented in these accounts. The parent company loss for the year was £1,715,000 (2014: loss £906,000).

## COMPANY INFORMATION

Company registration number	05299925
Registered office	Suite 3B 38 Jermyn Street London SW1Y 6DN
Directors	Stephen Sanderson Kiran Morzaria Jason Berry
Secretary	Kiran Morzaria
Auditors	Chapman Davis LLP Chartered Accountants Registered Auditor 2 Chapel Court London, SE1 1HH
Nominated Adviser	WH Ireland Limited 24 Martin Lane London, EC4R 0DR
Solicitors	Kerman and Co. LLP 200 Strand, London, WC2R 1DJ
Registrars	Share Registrars Limited Suite E, First Floor, 9 Lion and Lamb Yard, Farnham, Surrey, GU9 7LL