UK Oil & Gas Investments PLC

Annual Report and Accounts
For the year ended 30 September 2016

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STRATEGIC REPORT FOR THE YEAR ENDED 30 SEPTEMBER 2016

STATEMENT FROM THE CHAIRMAN

UK Oil & Gas Investments PLC ("Group", "Company" or "UKOG") is an oil and gas investment company which specialises in finding and producing oil from previously unrecognised naturally-fractured rocks in the Weald Basin of southern England. Our prime focus is upon a new type of oil deposit within Kimmeridge Limestone rocks which we are pushing towards commercial production.

In the three years since UKOG re-listed on AIM, chiefly boosted by the success of our Kimmeridge Limestone oil results at Horse Hill, we have become one of the most recognised and significant players in the UK onshore sector.

Listed on London's Alternative Investment Market (AIM) and NEX Exchange Growth Market (formerly the ISDX Growth Market), we have a portfolio of direct and indirect investments in 12 UK onshore exploration, appraisal, development and production assets. We are the largest acreage holder in the south-east of England, with assets covering 942 gross km² in the Weald and Purbeck-Wight Basins. Our portfolio includes five undeveloped conventional oil fields that we are moving towards near-term production. We generate investment cash from our interests in two producing oil fields in the region, Horndean and Avington.

At the heart of all that we do is minimising the impact of our activities on local communities and having total respect for the environment in which we live. We are determined to provide energy for Britain while preserving the way of life and rural beauty of our licence areas.

We believe that fully understanding our assets is fundamental to our success. That is why we engage with global experts, such as Nutech, Schlumberger and Xodus Group, together with internationally recognised academic institutions such as Imperial College, London, to provide us with the best advice to help turn our innovative ideas and oil discoveries into economic reality.

Our interests in the new Kimmeridge Limestone oil play have the potential for exceptional growth in the near and foreseeable future. Our portfolio also provides a solid underpinning of undeveloped oil discoveries, which along with our Kimmeridge Limestone projects, are economically robust at current Brent crude prices. We have a clear business plan, and the technical and operational expertise to make UKOG into a significant onshore producing oil company by end 2018.

The key highlights of 2016 include:

- The Horse Hill-1 ("HH-1") oil discovery was the first ever to flow substantial oil from the Kimmeridge Limestones ("KL"). It achieved an aggregate stabilised natural flow rate of 1,365 barrels of oil per day ("bopd") from two KL reservoirs (KL3 and KL4), a record rate for any UK onshore discovery well.
- Additionally, the HH-1 Portland reservoir flowed at a stabilised pumped rate of 323 bopd, the highest rate recorded from any UK Portland well. This rate was constrained by the pump's capacity.
- Via two acquistions, UKOG became the largest licence holder in the south-east of the UK, holding 942 gross km², a 113% increase from the previous reporting period.
- Acquisition of the 300 km² PEDL234 licence made UKOG the largest acreage holder within the KL play, with 672 gross km² licenced within the basin's "sweet spot".
- UKOG's acreage interests are independently calculated to contain approximately 20% of the Kimmeridge oil in place ("OIP") over the entire Weald Basin, with a gross P50 Kimmeridge OIP within Company licences of 17.12 billion barrels
- We acquired regulatory permissions to drill two new KL wells in 2017, Broadford Bridge-1 and Holmwood-1. Both are HH-1 geological look-alikes.
- UKOG consolidated and increased its interests in Horse Hill (PEDL137/246) and Holmwood (PEDL143)
- We submitted planning applications for two extensive appraisal and development projects at Horse Hill and Markwells Wood.
- Contingent Resources from our conventional portfolio increased to over 14 million barrels ("MMbbl") recoverable (excludes any recoverable resources in the KL and the PEDL234 Godley Bridge Portland gas discovery). UKOG's net resources have scope for significant growth via future inclusion of the KL.

The past year's activities and results are part of our goal to deliver, by the end of 2018, at least one, but potentially three, producing wells from the KL, plus production from the Horse Hill Portland. The forward plan also aims to deliver, by the end of 2019, oil production from Markwells Wood and Arreton, plus KL oil and

Portland natural gas from the Godley Bridge discovery. If successful, the Company is therefore poised to generate significant cash flow in the short to medium-term.

Sadly, there was one event that marred UKOG's past year. In November 2016, Jason Berry, our Commercial Director, died suddenly. He was only 47. Jason was instrumental in securing the solid financial footing that enabled us to deliver such a positive performance. He was heavily involved in the Company's £4 million share placing (May 2016). He will be missed. The most fitting tribute we can pay to him is to build further upon the momentum and success he helped to achieve. Our thoughts remain with his family.

Strategy

UKOG's overall exploration and appraisal strategy is geared towards oil extraction from previously unrecognised naturally-fractured rocks within the Weald and the Purbeck-Wight Basins of southern England. We have built a portfolio that has the potential to generate significant returns for the Company and its shareholders. It includes low-risk oil & gas production, appraisal and development assets as well as high upside exploration assets.

The key to this strategy is the Kimmeridge Limestone oil play, which will continue to be our flagship for the foreseeable future. Our aim is to demonstrate that the play can generate economic returns and is repeatable over the entirety of our 672 gross km² licence holding in the basin's "sweet spot". Whilst it is still early days, our goals are simple, and we aim to:

- Demonstrate commercial production from one, possibly two, wells at Horse Hill by end 2018
- Demonstrate that Horse Hill results can be replicated in three other locations across the Weald Basin (two wells in 2017: Broadford Bridge-1, Holmwood-1, one further in the first half of 2018)
- Deliver production from each well as early as permitting allows
- Further consolidate our holdings, where possible, and acquire further prospective acreage

Planning permissions are in place for the two 2017 wells, and we expect to receive the necessary consents for the planned Horse Hill production testing and drilling activities by the end of July. We are firmly on track to meet our end 2018 first production oil target.

OPERATIONAL REVIEW AND OUTLOOK

Horse Hill

Onshore licences PEDL137 (99.3 km², net interest 31.2%) and PEDL246 (43.6 km², net interest 31.2%) contain the Horse Hill Portland and KL light oil discoveries. Long term production testing is planned for 2017, to be followed by two further appraisal/development wells in 2018.

Much of the Company's effort over the past year was focused on the highly successful well tests at HH-1, and numerous follow-up analyses. Although we had expected to encounter moveable light oil in the Kimmeridge, the overall stabilised flow rate from the two uppermost limestones (KL3 and KL4), which aggregated 1,365 bopd of 40 API gravity dry oil, were beyond our highest expectations. These rates undeniably proved that the limestones could produce at initial commercial rates. No evidence of depletion was indicated from the test data analyses.

We followed up the flow tests with the acquisition of Angus Energy's and Flowermay Limited's interests in the licences and the submission of an extensive planning application to undertake long-term production testing and drill further wells at Horse Hill. By agreement with Surrey County Council, the determination of the planning application will take place by the end of July following Surrey's May 4th local council elections. The timing is in line with our expectations to commence testing in 2017 and our future projected first-oil target. The testing will last for approximately six months.

The planned production tests are specifically designed to prove access to a commercial volume of oil in place ("OIP"). Consequently, we expect to be able to make a declaration of commerciality for the Kimmeridge and Portland following these test results.

Analysis of the HH flow test data clearly demonstrates that natural fracturing is the key parameter that enabled high natural flow rates. We have learnt a great deal about the origin and pattern of this natural fracture system and plan to collect core and image log data from our new wells to help further this understanding.

The HH-1 well test data also indicate that the fractures in KL3 and KL4 could be vertically connected. Consequently, we believe that the well may have connected to a much larger fractured-reservoir "tank" than the the two individual limestones tested. It is, therefore, possible that natural fractures within the shale may also have directly contributed to measured oil flow. This observation has important and positive implications for the quantity of oil that could be recovered from a Kimmeridge well. We will, of course, know more after the upcoming long-term tests.

Following the production tests, we plan to drill a further deviated KL wellbore, HH-1z, from the existing HH-1 wellbore, and then a new well, HH-2, designed to access the Portland in both the Horse Hill and Collendean Farm fault blocks. We may use the opportunity to drill a HH-2 pilot hole down through the Kimmeridge to take key core and image log data. These wells are designed to be completed as future permanent oil producers, with first oil planned towards the end of 2018, subject to the necessary regulatory approvals and field development consent.

We also note with interest that, after the period, the nearby Brockham field re-entry well, BR-X1z (UKOG indirect interest 1.41%) recorded oil and gas shows throughout the Kimmeridge section. The same observations were made throughout the Kimmeridge at HH-1.

Should the BR-X1z well encounter natural-fracturing and flow oil from the Kimmeridge at commercial rates, it will provide further support that the Horse Hill results can be replicated elsewhere, and that the Horse Hill oil deposit likely extends to the north across the 99.3 km² of PEDL137 to Brockham (PL235 8.9 km²). Furthermore, a good Kimmeridge result would have strong positive implications for our Holmwood well, only 8 km west of HH-1. UKOG, with its extensive 672 km² acreage holding in the Weald's "sweet-spot", is well-positioned to exploit this wider oil deposit.

The HH-1 Portland oil discovery's importance was further boosted by Xodus' report which determined that the P50 OIP had increased to 32 MMbbl, an increase of 53% from the 21 MMbbl reported prior to 2016 flow testing. Gross Contingent Resources rose to 1.5 MMbbl (0.5 MMbbl net to UKOG) with a further 1.7–6.6 MMbbl gross recoverable (0.5-2.1 MMbbl net UKOG) being possible via implementation of a water re-injection scheme.

Other Horse Hill-related Activity Highlights

- Xodus' conceptual Weald Kimmeridge Limestone oil development study, pubished in October 2015, showed a low visual impact site could be achieved via wellheads and pumps below ground level. Controlled production could minimise HGV impact on local road infrastructure.
- Nutech calculated a total Horse Hill licence Kimmeridge P50 OIP of 5,198 MMbbl, of which 960 MMbbl is contained in the KL2, KL3 and KL4 (October 2015).
- EY's report, published in April 2016, assessed the potential impact of a Weald-wide KL oil production success case on the UK economy. The report concludes that KL oil production could provide up to 27% of future UK daily oil demand, a gross value-add to the UK economy of up to £53 billion and generate significant jobs.
- The Oil and Gas Authority granted licence extensions to PEDL137 and PEDL246 via the creation of "Retention Areas" over the entirety of both licences.

Broadford Bridge

Onshore licence PEDL234 (300 km², net interest 100%) contains multiple look-alike geological features to the Horse Hill KL oil discoveries. The licence also contains an eastern extension of the Godley Bridge-1 Portland gas discovery. The Broadford Bridge-1 well is planned for 2017.

During the period, utilising the knowledge gained from the HH-1 flow tests, UKOG acquired PEDL234, significantly increasing its acreage holding within the KL play's prime prospective area, or "sweet spot". The licence is operated by Kimmeridge Oil & Gas Limited ("KOGL"), a wholly-owned subsidiary of UKOG.

The licence is one of the UK's largest, covering 300 km², three times the size of our Horse Hill licence PEDL137. It straddles both the northern and southern flanks of the Weald Basin and, more crucially, the basin centre, where the Kimmeridge is interpreted to contain significant volumes of in-situ generated oil. Nutech's calculated Kimmeridge P50 OIP figures of 7,100 MMbbl within PEDL234, of which 1,700 MMbbl lie within the limestones, gives comfort to this viewpoint.

The KL are shown by legacy wells and seismic to be well developed over the entire licence, as are multiple areas likely to contain natural fracturing within the Kimmeridge, similar to that seen at Horse Hill.

Importantly, the licence acquisition included the existing Broadford Bridge well pad, planning permission and EA consent to drill the Broadford Bridge-1 ("BB-1") exploratory well.

The BB-1 well, planned for Q2 2017, will be a deviated or "slant" well, designed to penetrate the entire Kimmeridge section, targeting the four naturally-fractured Kimmeridge Limestones (KL1-KL4) to confirm that KL oil is contained within a resource or continuous oil deposit. The well will test the southern edge of the basin within a mirror-image of the Horse Hill fault block. The Kimmeridge section is planned to be drilled at an angle of approximately 45 degrees to vertical and approximately orthogonal to the predicted direction of open fractures within the Kimmeridge.

Operations will include the acquisition of an extensive coring, electric log and borehole imaging data set to provide further key information on the limestone reservoirs and natural fracturing. All pre-drill tenders have been issued and a drilling rig chosen. We expect that the well will provide UKOG with a quantum leap in knowledge of these unique KL reservoirs.

Our planning permission also includes the ability to flow test the well for up to 14 weeks. If successful, and provided the tests are encouraging, KOGL would aim to apply for permanent production status from BB-1 by the end of 2018.

Due to our 100% ownership, if BB-1 is a discovery of similar nature to HH-1, it could result in three times the overall net oil production impact to the Company compared to Horse Hill. Furthermore, should BB-1 ultimately prove our hypothesis that KL oil lies within a wider resource deposit, the licence's 300 km² area could hold around three times the recoverable resources of the Horse Hill licences.

Consequently, it is our viewpoint that a successful outcome from the BB-1 programme could have a highly material and transformational impact upon the Company.

Godley Bridge

Godley Bridge lies within onshore licence PEDL234, as per Broadford Bridge.

Technical studies by Xodus and UKOG show that the Godley Bridge-1 ("GB-1") Portland gas discovery likely extends into the north of PEDL234. More importantly, Nutech's petrophysical analysis of the GB-1 well also indicates that significant oil potential lies within the Kimmeridge underlying the Portland gas accumulation.

The Kimmeridge section encountered by the GB-1 well is thicker and more deeply buried than at Horse Hill, indicating the possibility for greater oil generation per unit volume of Kimmeridge shale than at Horse Hill. The Godley Bridge discovery also lies along a pronounced east-west faulted structural flexure, some 15 km in extent, and which is a prime candidate for the development of an associated significant fracture-network within both limestones and shales. Wet gas and oil shows were recorded throughout the Kimmeridge in GB-1 as is the case at the HH-1 discovery.

KOGL has started work on the selection of a well site and an associated planning application to drill a well in the first half of 2018. The well would both further appraise the Portland gas discovery and test the deeper KL1 -KL4.

Holmwood

Onshore licence PEDL143 (91.8 km², net interest 30%, operator Europa Oil & Gas (Holdings) plc) contains the Holmwood prospect, which is a look-alike feature to the HH-1 Portland and Kimmeridge oil discoveries, 8 km to the east. Planning permission is in place to drill the Holmwood-1 well to test the Portland and the Kimmeridge in 2017.

In November 2015, UKOG further increased its interest in the Holmwood PEDL143 licence and now holds a material 30% stake, being the largest single participant in the joint venture.

The Holmwood-1 well is an important part of our Kimmeridge oil strategy. It is one of our three planned new wells designed to demonstrate that the results of Horse Hill can be replicated across the Weald and that the Kimmeridge contains a laterally extensive oil deposit. The planned deviated well will also test a shallower Portland sandstone objective in a look-alike geological setting to the Horse Hill and Collendean Farm Portland discovery.

Markwells Wood

Onshore licence PEDL126 (11.2 km², net interest 100%) contains the Markwells Wood-1 oil discovery.

In September 2016 UKOG submitted a planning application to the South Downs National Park Authority to further appraise and develop the Markwells Wood-1 oil discovery. The planned two-phase programme would see four horizontal wells drilled within the conventional Great Oolite limestone reservoir. The discovery is a geological look-alike to the neighbouring Horndean producing oil field (UKOG net interest 10%). A planning decision is expected in Q2 2017.

As part of the Markwells Wood planning application, UKOG has worked with hydrogeology specialists Envireau Water, the Environment Agency and Portsmouth Water to arrive at a greatly improved understanding of the chalk aquifer that lies adjacent to the site. Future planned drilling will utilise biodegradable natural drilling fluids to present zero hazard to the area's chalk groundwater acquifer.

Isle of Wight

Onshore licence PEDL331 (200 km², net interest 65%) and offshore licence P1916 (46.7 km², net interest 100%. PEDL331 contains the Arreton-1 and Arreton-2 oil discovery.

These licences contain the same geology as our Weald Basin licences. Our focus is on fracture-enhanced conventional limestone and sandstone reservoirs that have been missed by previous operators.

The PEDL331 licence was formally granted to UKOG by the Oil and Gas Authority in the Summer. We have selected a well site and are currently compiling a planning application to drill a deviated appraisal well in the Arreton-2 oil discovery, again with a view to achieving early oil production in the event of success.

An analysis by Xodus Group Ltd ("Xodus") of the Arreton-2 oil discovery ("Arreton Main") and the adjacent low-risk Arreton North and South Prospects ("Arreton Prospects") calculated an aggregate gross P50 OIP of 219 MMbbl and net P50 Contingent Resources of 10.2 MMbbl and 6.8 MMbbl for Arreton Main, and the Arreton Prospects respectively.

Baxters Copse

Onshore licence PEDL233 (89.6 km², net interest 50%, Operator IGas Energy plc) contains the Baxters Copse-1 oil discovery – an appraisal well is planned for 2018-2019.

Horndean

Onshore licence PL211 (27.3 km², net interest 10%, operator IGas Energy plc). Horndean continued stable oil production throughout the period averaging 144 gross bopd.

Avington

Onshore licence PL070 (18.3 km², net interest 5%, operator IGas Energy plc) Avington continued stable oil production throughout the period averaging 47 gross bopd.

Brockham

The Brockham field lies in onshore licence PL235 (8.9 km², indirect net interest 1.41%, operator Angus Energy plc) and is the closest similar Portland sandstone producing oil field to the HH-1 Portland discovery.

After the reporting period, the operator conducted a well intervention programme on the Brockham discovery well BR-X1, encountering oil and gas shows in the Portland, Kimmeridge and Corallian. We understand that electric logs have been acquired and are under interpretation. We await further news of planned flow testing. As previously described, a successful Kimmeridge test would be a very positive outcome for UKOG's Horse Hll and Holmwood interests and the overall Kimmeridge Limestone play.

Portland production has been shut in pending completion of site improvements and the BR-X1 re-entry.

A the time of writing, due to Angus Energy's Initial Public Offering in November 2016 and other share issues, UKOG's share ownership was diluted from 6% to 2.56%.

Lidsey

The Lidsey field lies in onshore licence PL241 (5.3 km², indirect net interest 1.28%, Operator Angus Energy plc) produces from the same Great Oolite limestone as UKOG's Horndean and Avington oil fields and our Markwells Wood and Baxter's Copse oil discoveries. UKOG's interest is via our minority shareholding in Angus Energy. Lidsey production is shut-in pending an infill well in 2017.

Reserves, Resources and Oil in Place

UKOG has estimated net attributable P50 reserves of 89,983 barrels of oil (see Table 1 below). This figure is largely unchanged from last year, despite continuing production and several issues of shares by Angus Energy, diluting UKOG's net attributable interest in Brockham and Lidsey.

At the time of writing, UKOG also has 22.2 MMbbl of net attributable P50 Contingent and Prospective Resources (see Table 2 below). Table 2 includes the recently announced net Contingent Resources for the Horse Hill Portland reservoir. However, Table 2 does not include net Contingent Resources for the PEDL234 Godley Bridge gas discovery or Prospective Resources for the Isle of Wight P1916/PEDL331 M prospect.

Gross unrisked OIP for UKOG's licence interests are shown in Table 3. These OIP volumes are dominated by the Kimmeridge OIP estimated for the Horse Hill and Broadford Bridge/Godley Bridge licences.

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

Asset	UKOG Interest	Gross Reserves (bbl)			Net Reserves (bbl)			Source, Date
		P90	**P50**	**P10**	**P90**	**P50**	**P10**	
Horndean	10%	774,000	1,180,000	1,425,000	71,700	85,600	114,300	IGas, July 2016
Avington	5%	18,000	36,000	63,000	900	3,150	6,250	IGas, July 2016
Lidsey	1.28%	6,000	6,000	6,000	77	77	77	Angus, Nov 2016
Brockham	1.41%	69,000	82,000	92,000	973	1,156	1,297	Angus, Nov 2016
TOTALS					**73,650**	**89,983**	**121,924**	

Table 2: UKOG's Unrisked Gross and Net Resources for Four Oil Discoveries and Three Exploration Prospects

Asset	Licence	UKOG's Interest	Gross Resources (MMbbl)			Net Resources (MMbbl) [1]			Source, Date
			P90	P50	P10	P90	P50	P10	
Horndean [2]	PEDL126	10%	0.6	1.3	2.7	0.1	0.1	0.3	IGas/DeGMcN, July 2016
Avington [2]	PEDL070	5%	0.5	0.7	1.0	0.03	0.04	0.05	IGas/DeGMcN, July 2016
Markwells Wood [2]	PEDL126	100%	0.6	1.3	2.7	0.6	1.3	2.7	Xodus, September 2015
Holmwood [3]	PEDL143	30%	0.8	3.4	12.5	0.2	1.0	3.8	Europa/ERCE, June 2012
Baxters Copse [2,4]	PEDL233	50%	2.7	4.6	6.7	1.3	2.3	3.4	IGas/DeGMcN, July 2016
Horse Hill Portland	PEDL137	31.2%	0.6	1.5	3.6	0.2	0.5	1.1	Xodus, January 2017
Arreton Main [2]	PEDL331	65%	9.9	15.7	24.1	6.4	10.2	15.7	Xodus, January 2016
Arreton Prospects [3]	PEDL331	65%	4.0	10.5	21.6	2.6	6.8	14.0	Xodus, January 2016
Lidsey [2,5]	PL241	1.02%	0.3	0.6	0.7	0.00	0.01	0.01	Angus/Xodus, Nov 2016
Brockham [2]	PL235	1.41%	0.1	0.2	0.3	0.00	0.00	0.01	Angus/Xodus, Nov 2016
TOTALS						**11.5**	**22.2**	**41.0**	

Notes:
1. UKOG net share.
2. Contingent Resources.
3. Prospective Resources.
4. Contingent Resources are in barrels of oil equivalent, as they include gas.
5. Angus Energy's rights in any future new Lidsey well are reduced by 20%, due to a transaction with Doriemus Plc.

Table 3: UKOG Unrisked Gross OIP

Asset	Licence	UKOG's Interest	OIP (MMbbl) or GIIP (bcf)			Source & Date
			Low P90	Best P50	High P10	
Offshore Isle of Wight M Prospect Oil	P1916	100%	37	107	239	UKOG, March 2015
Offshore Isle of Wight M Prospect Gas [1]	P1916	100%	57	184	426	UKOG, March 2015
Onshore Isle of Wight	PEDL331	65%	144	219	322	Xodus, January 2016
Markwells Wood	PEDL126	100%	33	46	62	Xodus, September 2015
Holmwood	PEDL143	30%	4	15	55	Europa/ERCE, June 2012
Horndean	PL211	10%	27	56	110	Northern/RPS, Feb 2010
Avington	PEDL070	5%	25	59	110	IGas/Senergy, July 2014
Baxters Copse	PEDL233	50%	N/A	52	N/A	IGas/Senergy, July 2014
Horse Hill Portland	PEDL137	31.2%	22	32	47	Xodus, January 2017
Horse Hill Oil	PEDL137/246	31.2%	3,131	9,245	17,519	Nutech, June 2015
Horse Hill Oil	PEDL137/246	31.2%	N/A	10,993	N/A	Schlumberger, August 2015
Broadford Bridge/ Godley Bridge Oil	PEDL234	100.0%	3,158	7,120	13,717	Nutech, December 2016
Lidsey	PL241	1.28%	6	10	15	Angus/Xodus Nov 2016
Brockham	PL235	1.41%	2	3	4	Angus/Xodus Nov 2016

Notes:
1. GIIP figures.

FINANCIAL REVIEW

Income Statement

In 2016, production continued from Horndean and Avington generating revenues of £0.15 million. The operating loss increased in 2016 to £2.89 million compared to the £1.60 million loss in 2015. This increase is due to higher uncapitalised consultant, legal and due diligence costs associated with the acquisition and development of our asset portfolio. Loss for the year was £1.97 million an increase from the £1.69 million loss in 2015. The narrowing of the loss, compared to the operating loss for the year was due to the £1.02 million credit to the Income statement as a result of the negative goodwill associated with the acquisition of Broadford Bridge (PEDL234).

Cash Flow / Financing

The Group raised £4.41 million during the year, which was primarily utilised to increase our exposure to the onshore oil assets within the Weald Basin in England. We acquired 100% of Celtique Energie Weald Limited (PEDL234) for £3.5 million, of which we paid £1.25 million in cash. In addition we increased our investment in Horse Hill from 20% to 48% over the year for £2.8 million, of which we paid £1.15 million in cash. We also loaned Horse Hill Developments Ltd a further £1.21 million to fund the drilling and testing activities carried out during the year at HH-1. Our net cash out flow from operating activites was £1.86 million (2015: £1.05 million).

Balance Sheet

During 2016, non-current assets increased by £7.87 million primarily as a result of the acquisition of Broadford Bridge. At the end of the period the Group had £2.44 million (2015: £4.59 million) in cash and cash equivalents. Along with its non-current and other current assets the consolidated total assets were £18.51 million (2015: £11.58 million). Total liabilities increased to £0.59 million (2015: £0.44 million).

INVESTING POLICY

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.

CORPORATE SOCIAL RESPONSIBILITY

UKOG's Environmental Initiatives

I am pleased to report that to further enhance our environmental credentials, we have agreed a long-term alliance with a British-based company to use its natural, biodegradable drilling fluid. This zero-hazard drilling fluid (or "mud") will be used in all of UKOG's oil exploration and development drilling activities across the Weald Basin. The use of this mud will ensure that there can be zero contamination of any groundwater via the drilling process.

The drilling fluid, also used by water well drilling companies in the UK, is registered with the Centre for Environment, Fisheries and Aquaculture Science (Cefas). It is also the only drilling fluid to be formally approved by the Department for the Environment, Food and Rural Affairs for use in the public water supply.

UKOG has also commissioned a company to construct and operate an enclosed flare for its upcoming Horse Hill appraisal and well testing programme. The enclosed flare, commonly used at landfill sites, is clean burning, without odour and produces low emissions. The enclosed flare will be a first in the UK onshore oil & gas industry.

Oil Price Environment

We note the welcome recovery in the Brent oil price to around $55 per barrel at the time of writing. While neither OPEC or Russia have likely achieved their full promised production cuts, US shale production has also not recovered as quickly as some forecast. US stockpiles have also remained below expectations. Therefore, we see cuts broadly balancing increased US shale production and Brent crude remaining broadly stable in 2017 at or around current prices. At this price level, our Kimmeridge and other projects remain very robust. As the bulk of UKOG's costs are incurred in Sterling, the corresponding fall of around 20% in the US dollar to Sterling exchange rate post-Brexit acts as a further economic boost to UKOG's near term projects.

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

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
27 February 2017

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 was instrumental in the discovery of more than 13 commercial fields to date, including the giant 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 for seven years. He has served as a director of a number of public companies in both an executive and non-executive capacity, he is a non-executive director of European Metals Holdings Ltd and the Chief Executive Officer for Rare Earth Minerals plc.

Jason Berry, Executive Director (ceased as a director 16 November 2016)

Jason Berry joined UK Oil & Gas Investments PLC as an Executive Director in August 2014. He had extensive experience operating in global public markets having spent approximately 20 years working in the financial services sector in London. He was 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. Subsequent to the year end Jason died unexpectedly from a short illness and ceased to be a director on 16 November 2016.

The Directors present their annual report together with the audited consolidated financial statements of the Group for the Year Ended 30 September 2016.

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 £1,972,000 (2015: Loss £1,695,000). The Directors do not recommend the payment of a dividend (2015: £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 2016. The Directors have prepared cash flow forecasts for the period ending 28 February 2018 which take account of the current cost and operational structure of the Group.

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

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

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

Corporate Governance
Audit and Remuneration Committees have been established and in each case comprises Directors Stephen Sanderson and Kiran Morzaria, with Kiran Morzaria 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 (2015 - £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

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

Previous Directors
Donald Strang (resigned 23 October 2015)
Jason Berry (ceased 16 November 2016)

Stephen Sanderson, holds fully vested options over 35,000,000 ordinary shares (total options held by directors is 35,000,000) which are exercisable at 0.4p and 1.82p each up until 31 December 2017, and 28 September 2019, respectively. Kiran Morzaria holds no options.

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.

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
27 February 2017

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

We have audited the Group and Parent Company financial statements of UK Oil & Gas Investments PLC for the year ended 30 September 2016, 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.

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 2016 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
27 February 2017

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR YEAR ENDED 30 SEPTEMBER 2016

	Notes	2016 £'000	2015 £'000
Revenue	3	151	240
Cost of sales		(204)	(146)
Gross (loss)/profit		**(53)**	**94**
Operating expenses			
Administrative expenses		(2,062)	(1,192)
Foreign exchange gains		(20)	(49)
Depletion & impairment expense	10	(78)	(82)
Share based payments expense	22	(682)	(378)
Operating (loss)	**4**	**(2,895)**	**(1,607)**
Gain on settlements of derivative financial instrument		-	62
Share of associate loss	12	(106)	(69)
Finance costs	6	-	(81)
Negative Goodwill	2	1,029	-
(Loss) before taxation		**(1,972)**	**(1,695)**
Taxation	7	-	-
(Loss) for the year attributable to equity holders of the parent		**(1,972)**	**(1,695)**
Other comprehensive income			
Transfer to income statement		-	(44)
Other comprehensive income net of taxation		**-**	**(44)**
Total comprehensive loss attributable to equity holders of the parent		**(1,972)**	**(1,739)**
(Loss) per share			
		Pence	**Pence**
Basic and diluted	8	(0.09)	(0.10)

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 SEPTEMBER 2016

	Notes	2016 £'000	2015 £'000
Assets			
Non-current assets			
Exploration & evaluation assets	9	6,187	1,309
Oil & gas properties	10	1,500	1,566
Property, plant & equipment	10	370	-
Investment in associate	12	4,757	2,063
Available for sale investments	13	368	368
Total non-current assets		**13,182**	**5,306**
Current assets			
Inventory	14	3	2
Trade and other receivables	15	2,890	1,683
Derivative financial instrument	16	-	-
Cash and cash equivalents	17	2,444	4,590
Total current assets		**5,337**	**6,275**
Total Assets		**18,519**	**11,581**
Current liabilities			
Trade and other payables	18	(591)	(329)
Borrowings	19	-	(111)
Total current liabilities		**(591)**	**(440)**
Non-current liabilities			
Provisions	20	(359)	(359)
Total non-current liabilities		**(359)**	**(359)**
Total liabilities		**(950)**	**(799)**
Net Assets		**17,569**	**10,782**
Shareholders' equity			
Share capital	21	11,842	11,787
Share premium account		39,644	31,622
Share based payment reserve		1,224	659
Accumulated losses		(35,141)	(33,286)
Total shareholders' equity		**17,569**	**10,782**

These financial statements were approved by the Board of Directors on 27 February 2017 and are signed on its behalf by:

Stephen Sanderson
Director

Kiran Morzaria
Director

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

COMPANY STATEMENT OF FINANCIAL POSITION
AS AT 30 SEPTEMBER 2016

	Notes	2016 £'000	2015 £'000
Assets			
Non-current assets			
Exploration & evaluation assets	9	742	662
Investment in subsidiary companies	11	5,019	1,512
Investment in associate	12	4,757	2,063
Available for sale investments	13	368	368
Total non-current assets		**10,886**	**4,605**
Current assets			
Trade and other receivables	15	3,672	2,120
Derivative financial instrument	16	-	-
Cash and cash equivalents	17	2,371	4,461
Total current assets		**6,043**	**6,581**
Total Assets		**16,929**	**11,186**
Current liabilities			
Trade and other payables	18	(299)	(313)
Borrowings	19	-	(111)
Total Current liabilities		**(299)**	**(424)**
Total liabilities		**(299)**	**(424)**
Net Assets	-	**16,630**	**10,762**
Shareholders' equity			
Share capital	21	11,842	11,787
Share premium account		39,644	31,622
Share Based Payment Reserve		1,224	659
Accumulated losses		(36,080)	(33,306)
Total shareholders' equity		**16,630**	**10,762**

These financial statements were approved by the Board of Directors on 27 February 2017 and are signed on its behalf by:

Stephen Sanderson
Director

Kiran Morzaria
Director

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

CONSOLDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 SEPTEMBER 2016

	Share capital	Share premium	Share based payment reserve	Revaluation reserve	Accumulated losses	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Balance at 1 October 2014	**11,726**	**23,192**	**351**	**44**	**(31,661)**	**3,652**
Loss for the year	-	-	-	-	(1,695)	(1,695)
Other comprehensive income						
- Transfer to income statement	-	-	-	(44)	-	(44)
Total comprehensive income	-	-	-	(44)	(1,695)	(1,739)
Issue of shares	61	8,922	-	-	-	8,983
Cost of share issue	-	(492)	-	-	-	(492)
Share option exercised	-	-	(70)	-	70	-
Share based payments	-	-	378	-	-	378
Total contributions by and distributions to owners of the Company	61	8,430	308	-	70	8,869
Balance at 30 September 2015	**11,787**	**31,622**	**659**	**-**	**(33,286)**	**10,782**
Loss for the year	-	-	-	-	(1,972)	(1,972)
Total comprehensive income	-	-	-	-	(1,972)	(1,972)
Issue of shares	55	8,262	-	-	-	8,317
Cost of share issue	-	(240)	-	-	-	(240)
Share options exercised	-	-	(117)	-	117	-
Share based payments	-	-	682	-	-	682
Total contributions by and distributions to owners of the Company	55	8,022	565	-	117	8,759
Balance at 30 September 2016	**11,842**	**39,644**	**1,224**	**-**	**(35,141)**	**17,569**

COMPANY STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 SEPTEMBER 2016

	Share capital	Share premium	Share based payment reserve	Revaluation reserve	Accumulated losses	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Balance at 1 October 2014	**11,726**	**23,192**	**351**	**44**	**(31,661)**	**3,652**
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	-	-	-	8,983
Cost of share issue	-	(492)	-	-	-	(492)
Share option exercised	-	-	(70)	-	70	-
Share based payments	-	-	378	-	-	378
Total contributions by and distributions to owners of the Company	61	8,430	308	-	70	8,869
Balance at 30 September 2015	**11,787**	**31,622**	**659**	**-**	**(33,306)**	**10,762**
Loss for the year	-	-	-	-	(2,891)	(2,891)
Total comprehensive income	-	-	-	-	(2,891)	(2,891)
Issue of shares	55	8,262	-	-	-	8,317
Cost of share issue	-	(240)	-	-	-	(240)
Share options exercised	-	-	(117)	-	117	-
Share based payments	-	-	682	-	-	682
Total contributions by and distributions to owners of the Company	55	8,022	565	-	117	8,759
Balance at 30 September 2016	**11,842**	**39,644**	**1,224**	**-**	**(36,080)**	**16,630**

CONSOLIDATED STATEMENT OF CASH FLOW
FOR THE YEAR ENDED 30 SEPTEMBER 2016

	Year ended 30 September 2016 £'000	Year ended 30 September 2015 £'000
Cash flow from operating activities		
Loss from operations	(2,895)	(1,607)
Foreign currency losses	20	48
Other non-cash income & expenses	(19)	(52)
Depletion & impairment	78	82
Share based payment charge	682	378
(Increase) in inventories	(1)	(2)
Decrease in trade and other receivables	9	262
Increase/(decrease) in trade and other payables	262	(167)
Net cash (outflow) from operating activities	**(1,864)**	**(1,058)**
Cash flows from investing activities		
Expenditures on exploration & evaluation assets	(458)	(1,013)
Expenditures on oil & gas properties & PPE	(266)	(40)
Payments for acquisition of associate	(1,150)	-
Payments to acquire available for sale investments	-	(580)
Loans advanced to investee companies	(1,216)	(531)
Acquisition of subsidiaries, net of cash acquired	(1,257)	(1,493)
Net cash (outflow) from investing activities	**(4,347)**	**(3,657)**
Cash flows from financing activities		
Proceeds from issue of share capital	4,416	8,630
Share issue costs	(240)	(492)
Proceeds from loan & borrowings	-	622
Repayments of loan & borrowings	(111)	(557)
Finance costs paid	-	(81)
Receipts from settlements of financial instrument	-	201
Net cash inflow from financing activities	**4,065**	**8,323**
Net change in cash and cash equivalents	**(2,146)**	**3,608**
Cash and cash equivalents at beginning of period	4,590	982
Cash and cash equivalents at end of period	**2,444**	**4,590**

COMPANY STATEMENT OF CASH FLOW
FOR THE YEAR ENDED 30 SEPTEMBER 2016

	Year ended 30 September 2016 £'000	Year ended 30 September 2015 £'000
Cash flow from operating activities		
(Loss) from operations	(2,785)	(1,627)
Foreign currency losses	1	48
Share based payment charge	682	378
Decrease in trade and other receivables	76	277
(Decrease) in trade and other payables	(14)	(183)
Net cash (outflow) from operating activities	**(2,040)**	**(1,107)**
Cash flows from investing activities		
Expenditures on exploration & evaluation assets	(80)	(662)
Payments for acquisition of subsidiaries	(1,257)	(1,512)
Payments for acquisition of associate	(1,150)	-
Payments to acquire available for sale investments	-	(580)
Loans advanced to investee companies	(1,216)	(531)
Loan advanced to subsidiary	(412)	(452)
Net cash (outflow) from investing activities	**(4,115)**	**(3,737)**
Cash flows from financing activities		
Proceeds from issue of share capital	4,416	8,630
Share issue costs	(240)	(492)
Proceeds from loan & borrowings	-	622
Repayments of loan & borrowings	(111)	(557)
Finance costs paid	-	(81)
Receipts from settlements of financial instrument	-	201
Net cash inflow from financing activities	**4,065**	**8,323**
Net change in cash and cash equivalents	**(2,090)**	**3,479**
Cash and cash equivalents at beginning of period	4,461	982
Cash and cash equivalents at end of period	**2,371**	**4,461**

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 Consolidated Financial Statements are for the year ended 30 September 2016 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 27 February 2017 and signed on their behalf by Stephen Sanderson and Kiran Morzaria.

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

New standards, amendments and interpretations adopted by the Company
No new and/or revised Standards and Interpretations have been required to be adopted, and/or are applicable in the current year by/to the Group and/or Company, as standards, amendments and interpretations which are effective for the financial year beginning on 1 October 2015 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 2018.

- IFRS 16 in respect of Leases which will be effective for accounting periods beginning on or after 1 January 2019.

- 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.

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.

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.

1. Principal Accounting Policies (continued)

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.

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.

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).

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 30 September 2016 is shown in Note 10.

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

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 2016. The Directors have prepared cash flow forecasts for the period ending 28 February 2018 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 2016 the Company had cash and cash equivalents of £2,444,000 and borrowings of £nil. 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.

2. Business Combinations

Acquisition of Celtique Energie Weald Limited

On 13 June 2016 through UK Oil and Gas Investments PLC, the Group announced the acquisition of 100 per cent of the entire issued share capital of Celtique Energie Weald Limited. The company was re-named Kimmeridge Oil & Gas Limited.

The total consideration of £3.5 million comprised £1.25 million in cash and £2.25 million in the form of 142,648,831 UKOG ordinary shares. The acquisition was completed and shares issued on 5 August 2016.

Through the business combination the Group acquired the following assets:

- Weald Basin licence, PEDL234, a 300 sq km area, more than doubling the Group's net acreage holdings in the prime Kimmeridge Limestone Oil province.

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

	Celtique Energie Weald Limited Fair Value	**Fair Value Adjustments**	**Total Fair Value**
	£'000	**£'000**	**£'000**
Intangible Assets: Exploration Costs	4,536	-	4,536
Net identifiable assets acquired at fair value	4,536	-	4,536
	-	-	-
Total consideration	3,507	-	3,507
Negative goodwill on purchase			1,029
Total cash outflow on the acquisition is as follows:			
Cash paid			1,257
Net cash acquired with the subsidiaries			-
Net consolidated cash flow			**1,257**

2. Business Combinations (continued)

Acquisition of Northern Petroleum Companies

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 17 barrels of oil per day ("bopd") net to UKOG; both fields are operated by IGas.
- Offshore Isle of Wight exploration licence, P1916 (UKOG 100% 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 Fair Value	NP Weald Limited Fair Value	NP Solent Limited Fair Value	Total 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)
Net consolidated cash flow	**1,493**

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.

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

Group **Year ended 30 September 2016**	**Oil production & exploration £'000**	**Oil exploration & evaluation £'000**	**Corporate & Administrative £'000**	**Consolidated £'000**
Revenue				
External Customers	151	-	-	151
Total revenue	**151**	**-**	**-**	**151**
Results				
Depletion & impairment	(78)	-	-	(78)
Share of associates loss	-	(106)	-	(106)
(Loss) before& after taxation	**(35)**	**(106)**	**(1,831)**	**(1,972)**
Segment assets	**2,162**	**10,052**	**6,305**	**18,519**
Segment liabilities	**(310)**	**(341)**	**(299)**	**(950)**
Other disclosures:				
Investment in associate	-	2,800	-	2,800
Capital expenditure (1)	320	4,940	-	5,260

(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.

3. Segment Reporting (continued)

Group Year ended 30 September 2015	Oil production & exploration £'000	Oil exploration & evaluation £'000	Corporate & Administrative £'000	Consolidated £'000
Revenue				
External Customers	240	-	-	240
Total revenue	**240**	-	-	**240**
Results				
Depletion & impairment	(82)	-	-	(82)
Share of associates loss	-	(69)	-	(69)
Profit/(loss) before& after taxation	**37**	**(84)**	**(1,648)**	**(1,695)**
Segment assets	**1,907**	**4,078**	**5,596**	**11,581**
Segment liabilities	**(297)**	**(78)**	**(424)**	**(799)**
Other disclosures:				
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.

4. Operating Loss

Group	2016 £'000	2015 £'000
Operating (loss) is stated after charging:		
– Directors remuneration	489	628
– Auditors' remuneration;		
Audit-related assurance services	20	25
Other compliance services	-	-
Tax compliance	-	-
– Depletion & impairment of oil & gas properties	78	82

5. Directors and Employees

The Company employed the services of 3 Directors (2015: 3).

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

Group	**2016 £'000**	**2015 £'000**
Employment costs, including Directors, during the year:		
Wages and salaries	413	34
Consultancy fees	76	594
Share based payments	577	-
	1,066	628
Average number of persons, including executive Directors employed	**No.**	**No.**
Administration	3	3
	3	3
Directors' remuneration	**£'000**	**£'000**
Emoluments	1,066	628
	No.	**No.**
Number of Directors in money purchase pension schemes	-	-

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

	2016 £'000	**2015 £'000**
David Lenigas (resigned 8 July 2015)	-	170
Donald Strang (resigned 23 October 2015)	1	245
Jason Berry	366	162
Stephen Sanderson	607	51
Kiran Morzaria (appointed 23 October 2015)	92	-
Total Directors Emoluments	1,066	628

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

6. Finance costs

Group	2016 £'000	2015 £'000
Loan interest	-	35
Loan arrangement fee	-	46
Total finance costs	**-**	**81**

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	2016 £'000	2015 £'000
Loss for the year before tax	(1972)	(1,695)
Tax rate	20%	20/21%
Expected tax credit	(394)	(348)
Differences between capital allowances and depreciation	-	-
Expenses not deductible for tax purposes	136	78
Future income tax benefit not brought to account	258	270
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	2016 £'000	2015 £'000
(Loss) attributable to ordinary shareholders	(1,972)	(1,695)
	Number	**Number**
Weighted average number of ordinary shares for calculating basic loss per share	2,177,913,909	1,770,767,449
	Pence	**Pence**
Basic and diluted loss per share	(0.09)	(0.10)

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..

9. Exploration & evaluation assets

	Group £'000	Company £'000
Cost & Net Book Value		
As at 1 October 2014	-	-
Acquired through Business Combinations	296	-
Additions	1,013	662
As at 30 September 2015	**1,309**	**662**
Acquired through Business Combinations	4,420	-
Additions	458	80
As at 30 September 2016	6,187	742

During the year, there has been no impairment charged, or considered there required to be. The Directors have assessed the fair value of the exploration & evaluation assets as at 30 September 2016, 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 2016.

10. Oil & gas properties

Group	Oil & gas properties 2016 £'000	Property, plant & equipment 2016 £'000	Total 2016 £'000	Oil & gas Properties Total 2015 £'000
Cost				
As at 1 October	1,648	-	1,648	1,608
Acquired through Business Combinations	-	116	116	40
Additions	12	254	266	-
As at 30 September	1,660	370	2,030	1,648
Depletion & impairment				
As at 1 October	(82)	-	(82)	-
Depletion charge	(78)	-	(78)	(82)
As at 30 September	(160)	-	(160)	(82)
Carrying value				
As at 30 September	**1,500**	**370**	**1,870**	**1,566**

Impairment review

The Directors have carried out an impairment review as at 30 September 2016, and determined that an impairment charge is not currently required. The Directors based this assessment ongoing production from Hordean and in the case of Avington the operational optimisation that is ongoing to improve operational efficiencies.

11. Investment in Subsidiaries

Company	2016 £'000	2015 £'000
Cost and net book amount		
At 1 October	1,512	-
Additions in the year	3,507	1,512
At 30 September	**5,019**	**1,512**

The Company holds more than 50 per cent of the share capital of the following companies as at 30 September 2016:

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
Kimmeridge Oil & Gas Limited	UK	100%	GB£	Oil exploration

12. Investment in Associate

Group & Company	2016 £'000	2015 £'000
Carrying Value as at 1 October	2,063	-
Re-classification from available for sale investments	-	1,780
Equity additions at cost	2,800	352
Share of associates loss for the year	(106)	(69)
Carrying Value as at 30 September	4,757	2,063

On 6 March 2015, the Company acquired a further 8% interest in Horse Hill Developments Ltd ("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 0.8p per share. This acquisition took the Company's interest in Horse Hill to a 30% shareholding.

On 15 April 2016, the Company acquired a further 12% interest in Horse Hill for a total consideration of £1,800,000, payable as £1,000,000 in cash and £800,000 by the issue of 43,886,116 Ordinary Shares in UK Oil & Gas Investments PLC, at a price of 1.82p per share. A further 6% interest was acquired on 21 July 2016, for total consideration of £1,000,000, payable as £150,000 in cash and £850,000 by the issue of 50,981,799 Ordinary Shares in UK Oil & Gas Investments PLC at a price of 1.57p per share. These acquisitions took the Company's interest in Horse Hill to a 48% shareholding at 30 September 2016.

12. Investment in Associate (continued)

Details of the Group & Company's associate at 30 September 2016 are as follows:

Name	Place of Incorporation	Proportion held	Date associate interest acquired	Reporting Date of associate	Principal activities
Horse Hill Developments Ltd	UK	48.0%	06/03/15	31/12/16	Oil exploration

Summarised financial information for the Group & Company's associate, where made publicly available, as at 30 September 2016 is given below:

	For the period ended 30 September 2016			As at 30 September 2016	
	Revenue £'000	(Loss) £'000	Total other comprehensive income £'000	Assets £'000	Liabilities £'000
Horse Hill Developments Ltd	-	(340)	-	9,668	(6,858)

13. Available for Sale Investments

Group & Company	2016 £'000	2015 £'000
Investment in unlisted securities		
Valuation at 1 October	368	1,568
Additions at cost	-	580
Re-classification of investment to associate	-	(1,780)
Valuation at 30 September	368	368

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

Angus Energy Plc completed a listing on the AIM Market on 14 November 2016. The Market value of the Company's shareholding as at 21 February 2017 was £810,000.

14. Inventory

Group	2016 £'000	2015 £'000
Inventories - Crude Oil	3	2
Total	3	2

15. Trade and Other Receivables

	Group		Company	
	2016 £'000	2015 £'000	2016 £'000	2015 £'000
Trade debtors	160	26	145	26
Other debtors	594	609	546	609
Loans to related parties (see Note 26)	2,117	901	2,117	901
Loans to subsidiary companies	-	-	864	452
Prepayments and accrued income	19	147	-	132
Total	**2,890**	**1,683**	**3,672**	**2,120**

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**	**2016 £'000**	**2015 £'000**
Fair value at 1 October	-	184
Cost of equity swap arrangement	-	-
Settled during the year	-	(201)
Gain/(loss) on settled instalments	-	61
Transfer to income statement	-	(44)
Fair value adjustment at 30 September	-	-
Fair value carried forward at 30 September	-	-

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 2016.

17. Cash and Cash Equivalents

	Group		Company	
	2016	2015	2016	2015
	£'000	£'000	£'000	£'000
Cash at bank and in hand	2,444	4,590	2,371	4,461
Total	**2,444**	**4,590**	**2,371**	**4,461**

18. Trade and Other Payables

	Group		Company	
	2016	2015	2016	2015
Current trade and other payables	£'000	£'000	£'000	£'000
Trade creditors	536	117	244	101
Accruals and deferred income	55	212	55	212
Total	**591**	**329**	**299**	**313**

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

19. Borrowings

	Group		Company	
	2016	2015	2016	2015
	£'000	£'000	£'000	£'000
YAGM Debt facility	-	111	-	111
Total	**-**	**111**	**-**	**111**

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 were to be repaid in twelve equal monthly amounts ("Monthly Repayment Amount") and carry an annual interest rate of 10 per cent.

UKOG was 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 were subject to the prior approval of YAGM.

The Company drew down US$1 million under the YAGM Facility on signing the agreement, which was repayable at the rate of US$83,333 per month on or before 1 November 2015, together with accrued interest. This drawdown was repaid in full on 2 November 2015, and no further drawdowns were made.

20. Provisions - Decommissioning

Group	2016 £'000	2015 £'000
As at 1 October	359	-
Acquired on acquisition of subsidiaries	-	359
Additions	-	-
As at 30 September	**359**	**359**

The amount provided at 30 September 2016 represents the Group's share of decommissioning liabilities in respect of the producing Horndean and Avington fields, and the Markwells 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.

21. Share Capital

Ordinary Shares	Number of ordinary shares	Nominal Value	Total Value
		£	£'000
Issued at 30 September 2014	**1,423,063,508**	**0.0001**	**142**
On 15 October 2014, placing for cash at 1.2p per share	166,666,667	0.0001	17
On 28 November 2014, warrants exercised at 0.35p pere share	59,333,334	0.0001	6
On 13 March 2015, issue of shares at 0.8p per share for acquisition	44,000,000	0.0001	4
On 17 April 2015, exercise of warrants and options at 0.4p, & 1.48p per share	70,553,844	0.0001	7
On 10 June 2015, placing for cash at 2.25p per share	266,666,667	0.0001	27
Issued at 30 September 2015	**2,030,284,020**	**0.0001**	**203**
On 01 March 16, warrants exercised at at 2.25p per share	10,666,666	0.0001	1
On 10 March 16, warrants exercised at at 2.25p per share	2,500,000	0.0001	-
On 15 April 16, for non-cash on acquisition at at 1.82p per share	43,886,116	0.0001	5
On 25 May 16, placing for cash at at 1.5p per share	266,666,667	0.0001	27
On 05 August 16, for non-cash on acquisition at at 1.58p per share	142,648,831	0.0001	14
On 11 September 16, for non-cash on acquisition at at 1.67p per share	50,981,799	0.0001	5
On 22 September 16, for options exercised at at 0.4p per share	30,000,000	0.0001	3
Issued at 30 September 2016	**2,577,634,099**	**0.0001**	**258**

Deferred shares

The Company has in existence at 30 September 2015 and at 30 September 2016, 1,158,385,229 deferred shares of 0.001p. These deferred shares do not carry voting rights.

Total Ordinary and Deferred Shares

The issued share capital as at 30 September 2016 is as follows:

	Number of shares	Nominal Value £	Total Value £'000
Ordinary shares	2,577,634,099	0.0001	258
Deferred shares	1,158,385,352,229	0.00001	11,584
			11,842

21. Share Capital (continued)

Share Options
During the year 65 million options were granted (2015: 100 million).

As at 30 September 2016 the options in issue were:

Exercise price	Expiry date	Options in issue 30 September 2016
0.4p	31 December 2017	90,000,000
0.4p	28 November 2020	22,500,000
1.15p	22 August 2019	10,000,000
1.82p	28 September 2019	65,000,000
		187,500,000

30 million options were exercised and no options were cancelled during the year (2015: 17.5 million exercised). No options lapsed during the year (2015: nil).

Warrants
As at 30 September 2016, 13,500,001 warrants were in issue, all of these warrants are exercisable up to 10 June 2018, at 2.25p per share. No warrants lapsed during the year (2015: nil). 13,166,666 warrants were exercised during the year (2015: 112,387,178 exercised).

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

Accordingly, 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 2016.

22. Share-Based Payments

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

Share options	At 1 October 2015 No. millions	Issued during the year No. million	Exercised during the year No. millions	At 30 September 2016 No. millions	Exercise price £	Date from which exercisable	Expiry date
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
Jason Berry	-	20	-	20	0.0182	28/09/2016	28/09/2019
Stephen Sanderson	25	-	-	25	0.0040	21/01/2015	31/12/2017
Stephen Sanderson	-	35	-	35	0.0182	28/09/2016	28/09/2019
	55	55	-	110			
Consultants	22.5	-	(20)	2.5	0.0040	28/11/2013	28/11/2020
Consultants	75	-	(10)	65	0.0040	21/01/2015	31/12/2017
Consultants	-	10	-	10	0.0182	28/09/2016	28/09/2019
	152.5	65.0	(30)	187.5			

The share price range during the year was £0.0088 to £0.0298 (2015 - £0. 0035 to £0. 0310).

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
21 January 2015	2.3%	251.4%	2.95 years	£0.0039
28 September 2016	2.5%	90.1%	3. years	£0.0180

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

The Company recognised total expenses of £682,000 (2015: £378,000) relating to equity-settled share-based payment transactions during the year, and £117,000 (2015: £70,000) 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:

Current assets - Group	**2016** **£'000**	**2015** **£'000**
Inventory	3	2
Loans and receivables	2,890	1,683
Cash and cash equivalents	2,444	4,590
	5,337	6,275

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:

Current liabilities – Group		
Financial liabilities measured at amortised cost	591	440

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.

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.

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$4.35/bbl (2015: US$4.50/bbl), with all other variables held constant. Reasonably possible movements in commodity prices were determined based on a review of the last two years' historical prices and economic forecasters' expectations.

Increase/decrease in crude oil prices	**Effect on profit before tax for the year ended 30 September 2016 Increase/(Decrease)**	**Effect on profit before tax for the year ended 30 September 2015 Increase/(Decrease)**
	£'000	**£'000**
Increase US$4.35/bbl (2015: US$4.50/bbl)	16	20
Decrease US$4.35/bbl (2015: US$4.50/bbl)	(16)	(20)

24. Commitments & Contingent Liabilities

As at 30 September 2016, 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 2016.

25. Events after the Reporting Date

On 21 November 2016, the Company announced the death of Jason Berry, an Executive Director of the Company, following a short illness.

On 8 December 2016, the Company announced that it had issued 20 million new ordinary shares in the Company, on the exercising of share options at 0.4p per share for cash consideration of £80,000.

26. Related Party Transactions

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

	2016 **£'000**	**2015** **£'000**
Horse Hill Developments Ltd ("Horse Hill")	2,117	901
	2,117	901

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

	2016 **£'000**	**2015** **£'000**
Short-term employee benefits	678	728
Share-based payments	682	132
	1,360	**860**

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 £2,891,000 (2015: loss £1,715,000).

COMPANY INFORMATION

Company registration number	05299925
Registered office	Suite 3B 38 Jermyn Street London SW1Y 6DN
Directors	Stephen Sanderson Kiran Morzaria
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