

UK Oil & Gas PLC

Annual Report and Accounts For the year ended 30 September 2020

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Forward-looking Statement

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

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

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

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

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

OUR BUSINESS

UK Oil & Gas PLC (“UKOG” or the “Company”) is an energy company currently primarily focused upon oil & gas exploration and production. We specialise in creating new geological ideas, concepts and methodologies to find and produce oil & gas from previously unexplored or overlooked rock formations within established petroleum producing provinces.

Our current operational focus is on the UK and Turkey onshore sectors, where we aim to build a sustainable oil & gas production base that can act as a springboard to further worldwide opportunities. UKOG has operated safely and environmentally responsibly in the UK since 2013.

Our current UK onshore portfolio consists of direct and indirect interests in six oil & gas exploration, appraisal, development and production assets, all situated within the Weald and Purbeck-Wight Basins of southern England. We are the largest acreage holder in the south of England, with assets covering 689 gross km².

We hold majority interests in four UK onshore oil & gas discoveries, the most notable being at Horse Hill and Loxley in Surrey, together with a significant position in the Kimmeridge Limestone (KL) oil deposit or “play”. UKOG holds the largest acreage position within the play’s most prospective area or “sweet spot”, covering 489 gross km².

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

Our expanding portfolio in Turkey consists of a 50% non-operated working interest in the 305 km² Resan licence in south east Turkey, containing the potentially significant undeveloped Basur-Resan oil discovery plus further exploration prospects. This project is assessed to contain significantly greater discovered oil volumes than any of our UK projects and, if successful, offers potentially transformational growth for the Company.

A joint application with our Turkish partner for four further blocks offsetting the Resan licence, all of which contain undrilled geological lookalikes to the Basur-Resan discovery, has also been submitted to the Turkish regulatory authorities.

In order to move our business forwards, we maintain a high level of operational activity, conducting near-continuous drilling and flow testing operations since May 2017.

Our portfolio, notably Basur-Resan in Turkey and Loxley in the UK, has the potential to generate significant returns for the Company and its shareholders.

As a diversification, we are increasingly active in the newly emerging geothermal energy field, where we possess the key subsurface and engineering skills necessary to make such projects work. As well as new standalone geothermal projects, we are currently investigating the viability of hybrid energy sites envisaged to derive power from both petroleum and geothermal. We are a founder member of the newly formed Geothermal Energy Advancement Association.

We are actively investigating hybrid geothermal projects at two of our UK sites and will review geothermal opportunities onshore Turkey.

OUR STRATEGY

UKOG aims to build a diverse, sustainable and self-funding energy business which has the following strategic objectives:

Oil & Gas:

1. Find and Develop Low-Cost and Long-life Assets

- Continuing to invest in our potential near-term production assets is a key priority.
- Once in production, the revenues from these assets will provide free cash flow to re-invest and deliver shareholder returns.

2. Resource and Reserve Growth

- Building our recoverable resources, reserves and future production through targeted and disciplined high-impact exploration, appraisal projects and acquisitions.

Geothermal and Renewables:

1. UK Energy Diversification - Reduce Carbon Footprint of Company's Existing Petroleum Producing Sites

- Where viable, implement geothermal and/or solar energy cogeneration plus battery storage from existing wells/sites.
- Where viable, add new standalone geothermal and battery storage for grid/heat export.

2. Find and Develop New Stand-alone Geothermal Projects

- Ground floor entry, either operated or as joint venture partner.
- UK initial focus, international expansion if successful or commercially viable opportunities arise.

Targeted Portfolio Management:

Continuously review and high-grade our portfolio to either acquire or divest further stakes in existing assets. We also look to acquire assets at any stage in the life cycle and are not limited by geography, where we can create significant value for shareholders.

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

STATEMENT FROM THE CHAIRMAN

The worldwide Covid-19 pandemic has dominated our thoughts and our industry for the reporting period, yet I salute the Chief Executive and his team for thinking one step ahead and looking to broaden horizons internationally.

This has been my third year as Chairman of UKOG and I take this opportunity to repeat my applause for the volume of work undertaken by a small team of professionals. The core of that team, with the invaluable assistance from experts, has managed to overcome a series of hurdles and has taken the Company towards fresh fields and fresh opportunities that have the capability, if successful, to provide a step change in recoverable reserves and revenues.

Signing the Resan participation agreement with Aladdin Middle East Ltd in Turkey and applying for three further exploration licences exhibit our determination to achieve one of our strategic objectives of growing our reserves and resource. Along with a growing portfolio in Turkey, our Loxley, Arreton and Horse Hill assets will remain a significant part of UKOG's plans and thoughts in the coming year.

Over the past 18 months the team expended much effort in positioning our excellent Loxley asset ready for action in 2021. Consequently, we were all disappointed by November's rerun of Surrey County Council's planning consent meeting and the same 6 votes to 5 rejection as the original legally unsound June meeting. The UKOG team went to great lengths to answer all the questions raised in June, provide significant additional mitigations and to propose strong arguments about how development of hydrogen from the gas field would play a key part in the UK's net zero ambitions.

However, some of the committee appeared not to listen to the objective evidence presented to them and stuck rigidly to a narrow agenda which went against the conclusions and recommendations of the council's planning and highways officers. They preferred to focus on subjective local issues and failed to see the many positives at local, regional and national levels. So be it. Now UKOG has taken its case to a higher authority, who will hopefully decide upon facts not perceived fiction. The Loxley appeal will occupy much of this year with a decision expected by year end.

On the Isle of Wight, due to pandemic related delays, we now understand that our Arreton project's planning application should likely be determined in late second quarter, which, if granted, will allow us to schedule site construction and drilling once the pandemic situation stabilises.

Horse Hill has also proved to be another challenge, including the unlawful activities of climate change activists who have twice occupied the site in contravention of the UKOG injunction. The oil field has behaved like a talented but troublesome teenager: plenty of promise but with the expected problems too. In addition to the constant and mounting regulatory workload, the oil field's geology has proved unexpectedly complex. The team is determined to find technical solutions to make it the economic success story we want it to be.

From my base in Houston, Texas, I am in constant communication with Stephen Sanderson and his team. In addition, I monitor various chatrooms and blog sites and I read some of the frustration about the falling share values. Oil exploration is a complicated and time-consuming business. There are no guarantees of success and the regulatory procedure in the UK is clearly far lengthier and more intricate than we experience here in the States. It also has a habit of absorbing considerable time and money.

UKOG has no control over the day-to-day share price, it has no control over the price of Brent Crude and no control over the UK's complex attitude towards the oil & gas industry. Until our growing portfolio of appraisal projects produces reserves and positive cash flows, raising funds to keep developing, appraising and exploring in the interests of investors can only realistically be achieved via equity funding, but it will only be used when necessary.

We now look forward to a continued rise in Brent values and for a worldwide picture which offers stability and more reasons for optimism.

Allen D Howard
Non-Executive Chairman, 15 April 2021

CHIEF EXECUTIVE'S STATEMENT

This has been a uniquely challenging year for the nation and our industry as we have wrestled with the dual shock of Covid-19 and the subsequent collapse of Brent Crude prices. I have experienced many oil price downturns in my career, but none have been as unexpected or severe as 2020. Fortunately, the Company and industry have been resilient enough to survive and adapt and to witness the hoped for bounce back in oil price. We all hope this will be long lived.

During these uncertain times at UK Oil & Gas PLC we have deliberately adopted a positive half-glass-full mindset, prudently reducing our costs where possible and making positive steps by acquiring new, highly material opportunities at a time when entry prices were low.

Despite the pandemic I am delighted to report that the addition of the Turkey Basur-Resan discovery into our portfolio plus Loxley's significant gas volumes has seen our total net discovered resources increase significantly to 37.48 mboe, the highest level in the Company's short history. This represents a highly material increase of 129% compared to last year and, similarly, our reserves also increased by 13% compared to the last reporting period. Our plan remains to convert as much of our discovered resources into reserves and production as we can in 2021 via our appraisal drilling programme.

Although we significantly increased our recoverable reserve and resource base, the challenging price environment over the past year, coupled with the less than hoped for results at Horse Hill, has had an inevitable effect on the value of some of our assets. Consequently, in line with many other oil & gas companies, including many of our peers in the onshore UK, this year we have written down some £17.25 million of our historic investments, primarily at Horse Hill and the newly relinquished PEDL143 licence. The write down this year will therefore not impact upon any future success or revenues from our Turkish assets.

I would also like to stress, that in the current pricing environment, the significant cost reductions achieved at Horse Hill over the year and the forecast reduction in water handling costs via the conversion of HH-2z into a water injector means that, going forwards, Horse Hill production is forecast to be profitable. The planned HH-3 and HH-4 infill wells are also designed to boost production as we move forward in developing our asset. Horndean, which continues to produce very steadily, also remains profitable with current rates and prices.

As it had long been my vision to transform UKOG into an international organisation that could operate in areas that offer greater upside, lower costs and more rapid payback than the UK, these unprecedented times also provided the catalyst for action and a move to expand into pastures new.

Hence, in July 2020, we signed an agreement with Aladdin Middle East Ltd ("AME"), to take a 50% non-operated working interest in the Resan licence in Turkey, containing the material undeveloped Basur-Resan oil discovery, together with a subsequent application for four further exploration blocks containing similar potential to Resan. AME have operated successfully in Turkey for 60 years and we are fortunate to have them as our new partner.

I see this move into Turkey as crucial to the Company's continued success and prosperity. Our Weald Basin assets, although some of the best in the UK onshore, particularly Loxley and the Kimmeridge, simply do not offer the same step-change growth potential we aspire to and, due to the increasing regulatory burden, take far too long to monetise. In the Company's view, and as supported by published reserve metrics, the petroleum system and potential resource size in South East Turkey is simply in a different league from the Weald Basin and the UK onshore.

The Resan licence offers the rare opportunity to appraise a discovered oil accumulation with recoverable volumes greater than all of the Weald Basin's historic oil production and reserves combined. The new blocks, if awarded to us, each have the potential to add additional significant recoverable oil volumes to Basur-Resan.

What further drives our enthusiasm for Turkey is the low-cost environment and the ability to rapidly monetise any success in under a year, compared to 3-5 years in the UK. This has been ably demonstrated by our partner AME's success at their East Sadak field, the closest producing look alike field to Basur-Resan. Unlike the UK, Turkish Petroleum Law supports explorers and producers, as indigenous oil is given strategic importance by the government. If only that were the case in the UK.

CHIEF EXECUTIVE'S STATEMENT (CONTINUED)

Adding Basur-Resan into the portfolio was thus fully compliant with our stated growth strategy. It added a potentially long-life asset which can operate at a lower cost base than the UK and which significantly boosted our overall net attributable resources. The addition of Prospect A within the licence also more than compensated the loss of the volumes attached to the relinquishment of the PEDL143 A24 prospect.

Entry into the project also exemplifies our ongoing strategy of active portfolio management, in which we continually high grade our portfolio, both adding new higher potential value assets and divesting lower ranking assets as and when opportunities present themselves. In this way we can harness each asset's organic growth through the project execution stage.

This past year in the UK, we also submitted new planning applications for Arreton oil appraisal on the Isle of Wight and Loxley gas appraisal in Surrey, the latter of which is now the subject of a formal Appeal to the Planning Inspectorate to be heard via public inquiry in July 2021. We remain confident that the Appeal will be successful and that the Loxley project, one of the UK onshore's largest ever gas discoveries, can take its place as a source of feedstock for reformation into hydrogen, a key new sector to help the UK meet net zero.

We have also spent significant time looking at the feasibility of enhancing our UK sites to include renewable energy. Our vision is that our UK sites could become integrated hybrid energy hubs, encompassing solar, closed loop geothermal, petroleum and battery storage. We have also been evaluating stand-alone closed-loop geothermal activities as an addition to our traditional UK business. Whilst this sector is still in its infancy in the UK, we believe we have the key technical and project management skills necessary to make such projects work.

In order to further our geothermal projects and credentials we became a founder member of a new geothermal stakeholder organisation, the Geothermal Energy Advancement Association.

Further prudent financial decisions were also made during the reporting period, which, in response to rapidly falling oil prices included a 55% reduction in overall Administration expenses, representing a £2.18 million saving from the last reporting year. The saving included management and staff electing to take an effective 20% temporary reduction in salary.

In an ongoing series of cost cutting measures, the Company also significantly reduced the Horse Hill oil field's operating costs. From January 2020, operating costs were reduced by a substantial 66% overall, even though water handling costs increased substantially. The savings place Horse Hill in a good position to take advantage of the strengthening Brent crude prices seen post reporting period.

Horse Hill was also granted full long-term production consent by the Oil and Gas Authority ("OGA") in March 2020, which thus moved the status of HH-1 production into the proven developed producing ("PDP") reserves category, a pre-requisite for any future potential debt-based funding to help finance further Portland and Kimmeridge infill wells.

Market Place

From September 2019 until the impact of the pandemic was felt, oil prices remained remarkably stable, with Brent hovering around the low \$60s per barrel ("bbl."). However, this was not to last, as the value of Brent crude reached an unprecedented low on 21 April 2020 in direct response to a worldwide pandemic-induced slump in demand. An American analyst described that day as "crazy" and "a moment we never ever expected to see". The crazy day saw Brent plummet to \$15.98 per bbl as unimaginable negative values were experienced in US benchmark prices.

A month after the beginning of the UK's initial lockdown, the Covid-19 pandemic created a 30 per cent collapse in the global demand for oil, with the dramatic cut in air travel having a huge impact. In 2020, total demand for primary oils in the UK dropped 19 per cent compared to 2019 with refinery production following suit and dropping to its lowest ever level.

In the UK transport demand, which usually accounts for almost 70% of domestic oil consumption, dropped 28 per cent compared to 2019, led by a fall in aviation demand, which itself fell 60 per cent compared to pre-pandemic levels. Similarly, UK diesel demand fell by 17 per cent and petrol demand dropped 21 per cent in 2020.

CHIEF EXECUTIVE'S STATEMENT (CONTINUED)

Whilst petrol and diesel have shown a recovery, jet fuel consumption remains in the doldrums due to the international travel ban. All this took the use of oil & gas in UK transport down to levels last seen in the mid-1980s.

Following the pandemic's first wave, the OPEC cartel, plus Russia and other significant producers, agreed to cut supplies by 10 per cent to lessen the burden on over-flowing oil storage facilities. This, combined with a slowing of infection rates in developed countries corresponding with summer in the northern hemisphere, saw prices recover to around \$40 per bbl. by June 2020 and stay at the same level through summer and autumn. Developing countries who rely heavily on their oil exports, including Algeria, Iran, Iraq and Libya, were particularly adversely affected. Even the global majors, BP, Shell and Exxon Mobil, suffered multi-billion-pound losses.

Post the reporting period, in response to successful Covid-19 vaccine trials announced in November 2020, the global picture improved, with prices rising consistently, now reaching over \$60 per bbl. from end February 2021, recently briefly exceeding pre-Covid levels. A far cry from the values of \$140 in the early noughties, but still a healthy bounce back. The vaccination programme worldwide has had a positive impact on the financial mood of the markets, although the position remains volatile.

Interestingly in Q4 2020 indigenous UK production of primary oils was down 9.5 per cent compared to Q4 2019, following delayed maintenance and lack of investment, both direct results of the pandemic. Going forward it therefore remains a possibility that a similar lack of investment in oil supply within the global sector over the past year, notably in US shale and non-core Opec production, could limit supply levels to below pre-pandemic levels even with a return to pre-pandemic demand once vaccinations are fully rolled out and wider global travel resumes.

Such a potential global supply shortfall could also potentially be exacerbated by the prospect of the marginal cost of US oil being raised via President Biden's possible 'carbon taxes' on the 3 MMBop of oil from federal lands. This 'tax' could see US marginal shale and conventional projects remain shut in. A wider post-Covid economic surge could further exacerbate any upwards price pressure due solely to supply limitations. Consequently, there is room for cautious optimism for future oil prices.

Those projects with low operating costs and set within fiscal and operating regimes that allow rapid monetisation and payback could therefore stand to benefit more from any price increase cycle. Such projects will also likely be able to better compete for capital as they offer greater returns. The Company's exposure to operations in Turkey is therefore well positioned to take advantage of this scenario should it materialise.

As per oil demand, UK gas demand in 2020 fell by 6.2 per cent compared to 2019, resulting in a weakening of prices. Partly due to a colder than expected winter, prices recovered this year. Whilst UK imports dropped to around 59% of demand, the make-up of imports appears to have changed significantly, seeing a 12% reduction in gas imported via pipeline and a 4.8 per cent increase in Liquefied Natural Gas ("LNG") compared to 2019. The willingness of continental Europe to pay more for gas during the pandemic resulted in a significant shortfall of pipeline supply from Norway, mostly taken up by cheaper opportunistic LNG supply from Trump's USA.

Overall, LNG made up 42 per cent of all gas imports, up from 39 per cent in 2019. Imports of LNG were particularly high in the first half of 2020, reaching 62 per cent of total imports in Q2. Qatar, which has shareholding influence in the UK's National Grid, remains the dominant import source of LNG, contributing 48 per cent of total LNG in 2020, stable on 2019 levels. As new projects have come on stream, the number of LNG import sources has increased in recent years. Notably in 2020, imports from the US increased by 72 per cent on 2019. Ironically much of the US LNG derives from tight or fracked gas projects which would currently not be possible in the UK due to the moratorium relating to induced seismicity concerns.

As LNG has 3-4 times the carbon footprint of indigenous UK gas, such as UKOG's Loxley, any longer term UK import increase in LNG is potentially problematic with respect to reaching UK net zero targets. Given the UK Government's backing for low carbon (blue) hydrogen and BP's recently announced large scale Teesside blue hydrogen plant (which will reformulate natural gas into clean burning hydrogen) it would be ironic if the blue hydrogen were to rely upon high carbon footprint imports at the expense of lower footprint indigenous gas like Loxley.

CHIEF EXECUTIVE'S STATEMENT (CONTINUED)

Consequently, in order to meet UK net zero targets and to generate inward UK investment, the Company envisages that conventional indigenous gas such as Loxley will continue to play an important role in supplying the lowest carbon footprint gas for reformation into hydrogen through the projected 15-20 year life of the project. Additionally, if the government were committed to a level carbon footprint playing field, it is also conceivable that any future carbon taxes might 'protect' low footprint indigenous gas, further enhancing the viability of projects like Loxley.

Financials

I acknowledge the concerns of private investors about 'dilution' of shares in the Company. However, it is our view that until such time as the Company has sufficient positive cash flow and or significant proven and probable reserves upon which to secure debt funding, raising funds from equity remains the most sensible and realistic way to fund projects for forward growth.

All oil and gas companies, from majors to relative minnows, must find ways to survive and flourish and our liquidity in the market is a valuable tool when there are no other funding options available.

That said, we believe that success in Turkey could dramatically improve the Company's financial strength in the near term due to the sheer magnitude of the potential prize and the ability to rapidly monetise a successful well.

Just before the first Covid-19 lockdown in March 2020, the Company paid the final £1 million to complete the acquisition of Magellan Petroleum (UK) Investment Holdings Limited. This was the deferred consideration element to Tellurian Investments LLC, the former owner. Via this payment, UKOG now holds irrevocable ownership of Magellan, renamed UKOG (137/246) Ltd, which owns a direct 35% interest in the Horse Hill oil field and the surrounding highly prospective PEDL137 and PEDL246 licences. As a result, UKOG holds a controlling 85.635% in the field and surrounding licences.

In June 2020, the Company fully repaid its convertible loan with Riverfort Global Opportunities PCC Limited and YA II PN Ltd. The repayment of the outstanding balance of £1.825 million eliminated the uncertainty attached to loan note conversion timings and pricing, something the Company believed was having a negative influence on UKOG's share price.

During the reporting period we raised £2.0 million in December 2019 from a single institutional investor, partly to accelerate long-lead time surface facilities and other related works necessary to bring the field into stable long-term oil production. An additional £1.275 million was raised in April 2020 to implement a series of cost reduction measures and we then added a further £4.2 million in June 2020 to fund full repayment of the convertible loan, as detailed above, and for the purchase of key surface facilities at Horse Hill. Post period in October 2020 we raised a further £2.2 million to fund our share of initial costs in Turkey.

Operations

UKOG's UK operational activities concentrated upon the Horse Hill oil field, located near Gatwick Airport, plus we also pushed ahead with our other Weald Basin licences at Loxley in Surrey and Arreton on the Isle of Wight.

By end February 2021, post period, the Horse Hill field had produced and exported over 137,000 bbl of Brent quality crude from its Kimmeridge and Portland oil pools, providing the Company with a solid revenue base.

Activity at the Horse Hill field centred around reducing operating costs and a series of interventions on Horse Hill-1 ("HH-1"), designed to optimise pumping efficiency and minimise the expected water cut i.e., standard conventional oil field routine. The final intervention cycle finished in November 2020, seeing the safe reperforation of the full Portland oil producing section, insertion of a new simplified production tubing string and the downhole pump set at a deeper level to increase Portland pumping efficiency.

A further series of multi-week production optimisation trials to achieve the best balance between oil revenues and water handling and other operational costs were also undertaken, achieving stable water influx levels by the end of 2020. Work is also in hand, subject to regulatory permissions, to convert HH-2z into a water injector which should significantly reduce current water handling costs and help maximise oil recovery by supporting reservoir pressure.

CHIEF EXECUTIVE'S STATEMENT (CONTINUED)

It is expected that the further HH-3 Portland and HH-4 Kimmeridge infill wells will be planned in detail and drilled at Horse Hill following the completion of the Company's potentially transformational initial Turkey Basur-Resan appraisal drilling campaign.

As part of our UK energy diversification strategy, at Horse Hill we are actively evaluating the addition of 250 kW of photovoltaic solar power and 100 kW of battery storage to reduce site energy consumption, CO₂ emissions and operating costs, further underpinning long term site economic value and reducing greenhouse gas emissions. Alongside this we have also invested in a scoping study aimed at cogeneration and standalone geothermal energy at Horse Hill.

As operator of PEDL143, and as part of our portfolio management strategy, we carried out a detailed study examining the viability of drilling the A24 (formerly Holmwood) Portland and Kimmeridge prospect from selected sites outside the Surrey Hills Area of Outstanding Natural Beauty. We concluded this was not economically feasible and as a result UKOG and its partners relinquished their interests in the licence. It remains a source of irritation and regret that the prior operator did not drill this handsome prospect when it had planning permission to do so.

It should be noted, however, that the additional exploration potential of our Resan licence, namely the drill ready Prospect A, resulted in a net 13% gain to the Company's prospective resources, more than compensating for the relinquishment of PEDL143.

Turkey

In July 2020 and after much prior consideration, we decided to broaden our horizons with an agreement to take a 50% non-operated working interest in the 305 km² Resan oil appraisal and exploration licence in south east Turkey. Applications for three further follow-on exploration licences, comprising four 150 km² blocks, were also submitted to the Turkish regulatory authorities, again with 50% non-operated working interests.

UKOG's board views the forthcoming 2021 Basur-Resan appraisal drilling programme, aimed initially at proving the commerciality of the Basur-Resan oil discovery, to present a compelling and potentially transformational growth opportunity. If awarded the additional licences could each add similar oil resource potential as Basur-Resan to the Company's portfolio.

Post period, we received formal government consent for the Resan acquisition and subsequently completed the transaction with AME.

Having recently begun construction of the Basur-3 drilling pad, both the Company and AME will now work towards finalising the design and delivery of a successful first appraisal well, aimed at establishing the commerciality of the aerially extensive and as yet undeveloped Basur-Resan oil discovery. Work is also ongoing to design and shoot a c. 120 km 2D seismic programme this year and a further Resan-6 appraisal well.

The Basur-Resan oil discovery was assessed by Xodus Group Ltd to contain an estimated mean case discovered recoverable oil volume of approximately 34 million bbl gross, potentially delivering to UKOG approximately 17 mmbbl for its net 50% interest. The high case target offers approximately 67 mmbbl gross and 33.5 mmbbl net UKOG. Rapid monetisation of the discovery's success case is possible within a year in Turkey, plus drilling and operating costs are significantly lower than the UK.

Basur-Resan, therefore, has the potential to significantly surpass the recoverable oil & gas volumes currently assigned by Xodus to both our Loxley and Arreton appraisal projects and the entire aggregate sum of the Company's UK portfolio. As previously mentioned, to add a comparative scale, Resan's mean case gross discovered recoverable oil volume of approximately 34 million bbl exceeds the 32 million bbl of the total historic production and current remaining reserves of all the Weald Basin's historic 13 producing fields.

We also look forward to hearing the outcome of our application with AME for three further exploration licences in south east Turkey, lying to the south and south east of our Basur-Resan Licence. The most northerly block, M47-b3, is interpreted to contain a potentially significant extension of Basur-Resan and the most south easterly block, M48-d1, an extension of the recent Bukat-1 discovery well.

CHIEF EXECUTIVE'S STATEMENT (CONTINUED)

Covid-19

The Covid-19 emergency has provided us all with extraordinary new challenges. In early March 2020 we implemented a wide series of Covid-19 procedures and practices that protect the health and safety of our staff, consultants and stakeholders.

The policy adopts the Government's medical guidance at all times, including social distancing, and ensures appropriate levels of manpower and resources are maintained to ensure the safety of our operations as well as the health and safety of our team. At Horse Hill, we have adopted the policy of deploying essential staff only, all of whom are designated as "key workers" under the Government's emergency legislation.

Strict hygiene and distancing practices are in place to ensure that production continues at Horse Hill whilst protecting our team's health. As the plan minimises external contractor visits to those essential for safety, regulation and crude export, the planned series of further well interventions have been put on temporary hold until the current emergency passes.

Our Guildford office staff have also been adhering to best advice and practices, by working from home and communicating remotely using video conferencing technology which, fortunately, had been in active use within UKOG prior to the emergency.

Loxley

Following a post period rerun of the June 2020 Loxley planning committee meeting in November 2020, brought about by the Company's legal challenge to the lawfulness of the original meeting's conduct, Surrey County Council ("SCC") repeated their June performance, with the members voting 6 to 5 to narrowly refuse planning permission for appraisal drilling and testing at the Loxley gas exploration site near Dunsfold in Surrey.

This disappointing decision was, for the second time, contrary to the recommendation of the Council officers' report which recommended approval, all issues concerning planning, environmental and highways having been resolved to their professional satisfaction.

Crucially, the decision also ignored the key role domestic natural gas plays in the government's stated future low-carbon hydrogen policy in which natural gas is reformed into clean burning hydrogen. This new sector is an integral element of UK infrastructure strategy designed to help achieve net zero and underpin the UK's recovery from record Covid-19 induced debt levels.

Post period, on 8th February 2021, an appeal against SCC's refusal was lodged with the Planning Inspectorate, with a public inquiry lasting up to nine days now scheduled to commence on 27th July. We expect that a decision should be handed down some time in Autumn 2021.

Leading Counsel continues to advise that there are strong grounds to expect a positive appeal outcome, as the cited grounds for refusal are in direct conflict with the advice of its professional Planning and Highway Officers and their respective recommendations for approval.

High Court Injunction

During the 14 months prior to the writing of this report UKOG's Horse Hill oil field was the subject of some 6 short-lived unlawful incidents by a small group of protesters carrying out their actions under the name of Extinction Rebellion ("XR"). These actions were dealt with successfully by the police and on-site personnel and were of a temporary nature.

Whilst the Company has never sought to obstruct any peaceful protest or curb the right to freedom of expression, solely to restrain unlawful activities that impede its staff's right to go about their lawful business, it sought additional protection from the High Court via an interim injunction defining those behaviours considered beyond the limits of reasonable peaceful protest.

In the light of the pandemic and Surrey Police's increased efficacy in dealing with slow walks on the public highway, the Company recently sought to invite the High Court to revise the scope of the injunction to focus upon Horse Hill and to retain protection solely from trespass into the site and obstruction of the site's entrance.

CHIEF EXECUTIVE'S STATEMENT (CONTINUED)

At the post period High Court Hearing of 9th February 2021, Mrs. Justice Falk DBE, found that "there was a sufficiently real and imminent risk to justify the continuance of the interim injunction order and its revised scope, which prohibits trespass to the site's land, obstruction of the main entrance and lorry surfing. The injunction is a reasonable and proportionate restriction on protesters' activities. The order does not prevent slow walking or simply standing outside the site (to protest), provided that this does not physically obstruct anybody entering or leaving the site."

The judge also found that the Injunction should be extended to include six named protesters associated with XR. In addition, two named XR protesters, who trespassed into the site on 10th October 2020, offered undertakings to the court to abide by the terms of the injunction in return for UKOG not seeking to pursue committal for a breach of the injunction.

The injunction now remains in force until a final two-day trial, to be heard on 28th June 2021. We trust that protesters will take heed of the Judge's ruling.

Horse Hill Judicial Review

During the reporting period we learnt that opponents of Horse Hill had, at a third attempt, obtained consent for a judicial review ("JR") of SCC's September 2019 planning consent for long-term oil production at the site. As an interested party to SCC's defence against the claim, UKOG's counsel, David Elvin QC actively participated in the post period High Court hearing on 17-18th November 2020.

Just before Christmas 2020, we were delighted to announce that, following the JR hearing, the Hon Mr. Justice Holgate comprehensively dismissed the challenge to the lawfulness of SCC's planning consent. The written judgement rejected the challenge's three grounds.

This was a victory for planning law and common sense, although one can only wonder why a comprehensively unsound claim with a clear political agenda was permitted so many bites at the same legal cherry, it having been rejected for JR twice before. Justice Holgate made it abundantly clear in his judgement that the courts are not responsible for making political, social, or economic choices.

Disappointingly, we have also just learnt that subsequent to the JR, the claimant (Finch) has been granted leave to appeal Mr Justice Holgate's decision. We remain confident that based upon planning regulations and law, the Court of Appeal will arrive at the same conclusion as Justice Holgate. Interestingly, leave to appeal was granted by Mr Justice Lewison, the same judge who granted the JR to the claimant at the third attempt.

The Company's production planning consent currently remains in full force.

Energy White Paper

To our opponents, many of whom fail to see the irony of burning oil to drive to oil & gas sites to protest, or to disregard the safety and health of others by violating the prevailing Covid-19 gathering and social distancing regulations, I bring to their attention 2020's Energy White Paper and the Climate Change Committee's carbon budget, in which indigenous oil & gas remains a part of the UK's energy transition to net zero and beyond.

This is because we not only need to keep the lights on while other energy sources transition to fill demand but will also continue to need non-combusted industrial petroleum feedstocks to manufacture key 21st century materials. Without ready access to such materials there will be no electric vehicles, green aviation or wind turbine blades.

On a simpler level we might also consider that the humble PPE the country continues to depend upon to combat the pandemic are also primarily derived from such non-combusted petroleum feedstocks. Where would we be without face masks and visors, gloves, protective gowns, aprons, syringes, sterile tubes and pipes in intubators and ventilators, catheters, let alone vital function computers and screens and much more?

It must surely be preferable that such transitional fuel and vital feedstocks should come from domestic sources rather than those beyond the UK's control and regulation. We have already seen during last year's scramble for PPE what can happen if sectors are offshored.

CHIEF EXECUTIVE'S STATEMENT (CONTINUED)

Our future energy and materials needs are a complex problem requiring complex solutions, not a simple yes or no approach.

We also welcome the White Paper's aim to "...provide opportunities for oil and gas companies to repurpose their operations away from unabated fossil fuels to abatement technologies such as carbon capture, utilisation and storage (CCUS) or clean energy production such as renewables and hydrogen." At UKOG we plan to be part of today's and tomorrow's energy solution by diversifying our UK business to provide both energy and feedstocks from hydrocarbons, energy from gas reformed into clean hydrogen and via new geothermal and renewable energy opportunities.

Finally, with the prospect of stable profitable production from Horse Hill, exciting new drilling in Turkey and a return to pre-Covid oil price levels, I now look forward with confidence to a more settled financial picture for the Company as we do everything in our control to bring more value to our shareholders. Our planned activities as well as our continued search for further 'quality' international production opportunities

Stephen Sanderson
Chief Executive
15 April 2021

PRINCIPAL RISKS AND UNCERTAINTIES

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

Key Risk Areas

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

Risk	Mitigation	Magnitude and likelihood
Strategic risks		
Exposure to political risk , we operate and may seek new opportunities in countries, regions and cities where political, economic and social transition may take place. Political instability, changes to the regulatory environment or taxation, international trade disputes and barriers to free trade, international sanctions, expropriation or nationalisation of property, civil strife, strikes, insurrections, acts of terrorism, acts of war and public health situations (including the continued impact of the COVID-19 pandemic or any future epidemic or pandemic) may disrupt or curtail our operations or development activities and could affect the ability of UKOG to deliver to its Strategy	Through industry associations and direct contact, the Company engages with Government and other appropriate organisations to ensure the Company is kept abreast of expected potential changes and takes an active role in making appropriate representations.	Magnitude- High Likelihood – Medium
Operational risks		
Permitting risk , planning, environmental, licensing and other permitting risks associated with our operations particularly with exploration drilling operations.	During the period the Company faced several challenges in obtaining all the required permits. This is despite UKOG’s compliance with regulations, proactive engagement with regulators, communities and the expertise and experience of the management teams. We believe this is because of changing priorities within the United Kingdom and the Company has sought to further diversify this risk by seeking investments outside the United Kingdom	Magnitude- High Likelihood – High
Exploration risk , the Company fails to locate and explore hydrocarbon-bearing prospects that have the potential to deliver commercially, e.g. key wells are dry or less successful than anticipated	Analysis of available technical information to determine the work programme. Risk-sharing arrangements entered to reduce downside risk	Magnitude- High Likelihood – High
Oil production , oil is not produced in the anticipated quantities from the Group’s assets, or it cannot be produced economically	Analysis of available technical information to improve our understanding of the reservoir and continue to review cost structure to target low production costs	Magnitude- High Likelihood – Medium

PRINCIPAL RISKS AND UNCERTAINTIES (CONTINUED)

Operational risks (continued)		
<p>Price and markets, our financial performance is impacted by fluctuating prices of oil, gas and refined products. Oil, gas and product prices are subject to international supply and demand and margins can be volatile. Political developments, increased supply from new oil and gas or alternative low carbon energy sources, technological change, global economic conditions, public health situations (including the continued impact of the COVID-19 pandemic or any future epidemic or pandemic.</p>	<p>During the reporting period the Group entered into production at the Horse Hill assets. The Group determined that given its stage of development the costs of hedging would be prohibitive. The Group will keep this under review. At this point the Group continues to review costs where appropriate.</p>	<p>Magnitude- High Likelihood – High</p>
<p>Loss of key staff</p>	<p>Provide and maintain competitive remuneration packages to attract the right calibre of staff. Build a strong and unified team</p>	<p>Magnitude- High Likelihood – Low</p>
Financial risks		
<p>Liquidity risk, exposure through its operations to liquidity risks.</p>	<p>The Board regularly reviews UKOG’s cash flow forecast and the availability or adequacy of its current facilities to meet UKOG’s cash flow requirements</p>	<p>Magnitude- High Likelihood - Medium</p>

OPERATIONAL REVIEW

Whilst UKOG's operational activities were concentrated on the Horse Hill oil field, located near Gatwick Airport, the Company has also pushed ahead with its other Weald Basin licences at Loxley and Arreton. In addition, we have significantly enhanced our business with the acquisition of a 50% non-operated working interest in the 305 km² Resan licence in south east Turkey, containing the undeveloped Basur-Resan oil discovery. Applications for three further exploration licences containing geological lookalikes to Basur-Resan have also been submitted to the Turkish regulatory authorities, again with 50% non-operated working interests.

Horse Hill Oil Field, PEDL137 and PEDL246 (UKOG 85.64%)

The field and surrounding licence is operated by UKOG's subsidiary company Horse Hill Developments Ltd ("HHDL") in which UKOG has 77.9% ownership. The Licensees are HHDL (65% interest) and UKOG (137/246) Ltd (35% interest).

The reporting period has seen an unprecedented level of operational activity at Horse Hill including drilling, continuous test production and several well intervention operations, including during the Covid-19 restrictions. It is testament to the team that these operational activities have been planned and executed successfully on budget and without compromises in terms of health, safety, environmental impact and quality ("HSEQ"). In addition to these operational activities, key regulatory approvals have been obtained for long term production.

At the beginning of the reporting period, drilling operations for the new Horse Hill-2/2z ("HH-2/2z") Portland well commenced with the British Drilling & Freezing 28 drilling rig spudding HH-2 on 29th September 2019. HH-2/2z, in the field's Portland oil pool, was designed to take Portland core and then be retained as a future horizontal production well. Planning consent for long term oil production over 25 years was granted by Surrey County Council on 27th September 2019.

We continued with a significant amount of activity leading up to Christmas 2019. October 2019 saw simultaneous drilling and test production operations at Horse Hill with continuous Kimmeridge oil production from HH-1 maintained during the HH-2/2z horizontal drilling campaign.

In order to optimise the placement of the HH-2z horizontal section, the near vertical HH-2 borehole successfully acquired 241ft of Portland core and electric logs. Following completion of HH-2 operations the well was successfully sidetracked and a 2,433ft long 6" horizontal section was drilled within the Portland reservoir.

The horizontal drilling of the Portland HH-2z was completed in November 2019, with the length of the horizontal curtailed by the intersection with natural fractures in the reservoir and the onset of drilling mud losses at the toe of the well. All technical well construction, operational and HSEQ objectives of the HH2/2z drilling campaign were successfully achieved.

Clean up and flow testing of HH-2z was conducted from December 2019 through to October 2020. Initial flow tests were encouraging with established rates up to 1087 bpd and oil cuts up to 60%. Unfortunately, as the test progressed the formation water cut significantly increased to over 70% rendering production of the well technically and commercially challenging. A decision was made to undertake a water shut-off at the toe of the horizontal section.

In early March, following the identification of the water ingress source via production logging, a plug was set over a zone of open natural fractures clustered at the deepest part or "toe" of the wellbore. Initial testing of HH-2z demonstrated a continuous flow of dry oil to surface, confirming that the plug had eliminated underlying formation water ingress into HH-2z. Testing continued but over time HH-2z oil production rates continued to be lower than expectations coinciding with rapidly increasing water cuts, thought to be from natural fractures along the wellbore.

UKOG has now determined that the most commercial future usage for HH-2z is to utilise it as a water injector in the field rather than as a producer. This will both remove the need for expensive off-site water disposal via tanker and also help maximise oil reserves recovery by supporting reservoir pressure

OPERATIONAL REVIEW (CONTINUED)

Operations continued at Horse Hill under Covid-19 restrictions with essential personnel only. No cases of Covid-19 have been reported within the company's operations.

Also in March, the Oil and Gas Authority ("OGA") approved the revised Horse Hill Field Development Plan and consented to the start of long-term production from the field, a significant milestone for Horse Hill. An addendum to the Field Development Plan for the conversion of HH-2z to a water injector has been submitted. Other regulatory consents for water injection are underway, with permissions currently forecast for some time in Q2 2021, subject to any pandemic related delays.

In July, agreement was reached to purchase key surface facilities deployed at the Horse Hill site from facility owner PW Well Test. This acquisition allowed the rental contract to be terminated and operating costs per barrel to be significantly reduced by up to \$4/bbl. Whilst some further facility addition and automation will be required over a period of time for long term production in line with Control Of Major Accident Hazards regulations, the acquisition allows Horse Hill to control this process, own and operate its equipment, manage maintenance and procedures and direct hire field personnel. In addition, the acquisition provides production continuity and negates having to shut down the field for an extended period to design, build and commission new facilities.

At the end of the accounting period, further well intervention operations on HH-1 were safely completed, optimising oil flow by isolating the Kimmeridge perforations, by re-perforating the full Portland oil producing section, by insertion of a new simplified production tubing string and by setting the downhole pump at a deeper level to increase pumping efficiency. These improvements set HH-1 up for long term continuous and optimised oil production from the Portland. Water injection plus further infill development of both Portland (HH-3 well) and Kimmeridge (HH-4 well) offer upside for the Horse Hill field.

Post-period the intervention was immediately followed by an ongoing series of multi-week production optimisation trials to achieve an optimum balance between oil revenues and water handling and other operational costs. Trials include well-cycling (i.e., shutting in the well for a set period each day to reduce water inflow) and pump fill optimisation. The trials continued for several months. Early results are encouraging, with stable oil and water influx levels achieved by early 2021.

As of end-February, over 137,000 bbl of Brent quality crude had been produced and exported from the Kimmeridge and Portland pools.

In line with the challenging oil price environment, significant further efforts have also been made in managing and reducing operational costs. From January 2020 to January 2021 our total operating costs have reduced by 66%. The savings will help place Horse Hill in a good position to take advantage of the strengthening Brent crude prices seen in the past month.

It is expected that further HH-3 Portland and HH-4 Kimmeridge infill wells will be planned in detail and drilled at Horse Hill.

Loxley, Broadford Bridge, PEDL234 (UKOG (234) 100%)

OGA approved an amendment to the PEDL234 Retention Area work programme, wherein Loxley-1 is to be drilled by December 2021.

Following SCC's initial 29th June 2020 planning committee meeting, in which the members voted by 6 to 5 against SCC's planning officer's recommendation to approve UKOG's Loxley planning application, the Company sent SCC a formal legal letter of complaint outlining a series of procedural and other legal issues that potentially affected the lawfulness of decisions made during the meeting. SCC also acknowledged that they received in excess of 100 similar complaints alleging that there were procedural irregularities that invalidated the result.

SCC decided that the Loxley Gas project should be redetermined post period on 27th November. However, again contrary to the recommendation of its own planning team, SCC refused Loxley planning consent. In February UKOG filed an appeal to the Planning Inspectorate, with our leading legal counsel advising that there are strong grounds to expect a positive appeal outcome. The appeal is to be heard via a public inquiry commencing on 27th July 2021.

OPERATIONAL REVIEW (CONTINUED)

For the Loxley Portland gas discovery, Xodus Group provided an updated volumetric report which calculates the discovery contains a significant mean case gross gas initially in place ("GIIP"), i.e., gas in the ground before any future production) of 49 billion cubic feet ("bcf"). The portion of GIIP estimated to be recoverable to surface via any future production, the mean gross recoverable resource, is cited as 34 bcf, representing an estimated recovery factor of approximately 70%.

In June 2020 the Environment Agency ("EA") issued UKOG with the necessary permit to drill and test Loxley, covering all environmental aspects of the proposed scheme of works including a Loxley-1z sidetrack well.

West Sussex County Council's ("WSCC") Planning Committee approved, by a significant 10-1 majority vote, a 2-year planning permission extension to its Broadford Bridge-1/1z Kimmeridge oil discovery, located in licence PEDL234 (UKOG 100%). The planning extension, which was recommended by WSCC's planning officer, will expire on 31st March 2022.

Arreton, Isle of Wight, PEDL331 (UKOG 95%)

UKOG filed a planning application with the Isle of Wight Council for the appraisal drilling and flow testing of the Arreton oil discovery. The Company has spent considerable time and undertaken much research to minimise the potential noise and visual impact of the site, which will be largely screened from public view.

The Company has chosen a site adjacent to land which already supports non-agricultural commercial uses. The land immediately to the east supports the Wight Farm Anaerobic Digestion Energy Power Station and to the west supports the Blackwater Quarry and ancillary operations connected to the working of aggregates. Post period UKOG also filed a permit application with EA.

Turkey, Resan Licence (UKOG 50%)

Post period, in October 2020, UKOG completed a Participation Agreement and Joint Operating Agreement with Aladdin Middle East Ltd ("AME"), an independent oil company with 60 years of operational experience in Turkey, to take a 50% non-operated working interest in the 305 km² Resan Licence. UKOG will take an active technical role in a 4-well oil appraisal and step-out exploration drilling programme designed primarily to assess the commercial viability of the significant Basur-Resan oil discovery. The transaction was approved by the Turkish government and completed in January.

The Resan Licence lies within the SE Anatolian basin, a geological continuation of the prolific Zagros "fold-belt" petroleum system within the foothills of the Taurus-Zagros mountains in Iraq, Iran and Turkey, one of the Middle East's major oil producing areas. Multiple producing oil fields lie to the immediate west and south east of the Licence, containing significant proven recoverable reserves.

In November 2020 UKOG quickly built on this exciting entry into Turkey by submitting an application for three further exploration licences covering four blocks, again with a 50% interest and AME as operator. The four blocks contain identified undrilled geological lookalikes to Basur-Resan. UKOG is awaiting the Turkish government's decision on our application.

Other Assets

As operator of PEDL143 (UKOG 67.5%), UKOG carried out a detailed study examining the viability of drilling the A24 (formerly Holmwood) Portland prospect from selected sites outside the Surrey Hills Area of Outstanding Natural Beauty, each over 3 km from the target. UKOG concluded that the required long-reach/shallow target-depth wells were neither technically viable nor economically feasible. Consequently, UKOG and its partners have relinquished their interests in the licence. The associated investment into the licence has been written down.

Stable oil production with low water cut continues from the Horndean oil field in Hampshire (UKOG 10%).

UKOG completed the restoration and replanting of the Markwells Wood well site. UKOG also relinquished the related PEDL126 licence.

Kris Bone
Operations Director
15 April 2021

Matt Cartwright
Commercial Director
15 April 2021

FINANCIAL REVIEW

Income Statement

During the period long term oil production commenced at Horse Hill via HH-1, which along with the oil production from Horndean, generated revenues of £0.91 million (2019: £0.21 million). However, as interventions and optimisation work were required at HH-1 to achieve stable Portland production, overall costs for the year were necessarily higher than would be normally expected under any future stable production scenario (as is currently the case). These pre-stable production period costs thus resulted in a gross loss for the period of £1.63 million inclusive of Depletion, Depreciation and Amortisation costs of £1.37 million (2019 gross profit £0.12 million).

The reporting period saw a significant reduction in Administration expenses from £3.94 million during the period ending 30 September 2019 to £1.76 million during the period ending September 2020.

As Horse Hill was granted regulatory permissions to commence long-term oil production via HH-1, the investment in HH-1 was transferred from an exploration and evaluation asset to tangible assets. This was initially transferred at the carrying value and subsequently impaired. Based on a net present value calculation of HH-1, £4.783 million was capitalised as a tangible asset. The carrying value of our investments in HH-1 was higher than £5.03 million and therefore the variance was impaired and expensed during the year. The lower net present value assessment was primarily due to a combination of lower than expected flow rates resulting from earlier than expected water ingress and slightly lower than expected Brent crude oil prices.

Therefore, alongside our relinquishment of the PEDL143 licence there has been an Impairment expenses of £14.195 million (2019: £0.02 million).

In addition, at Horse Hill the investment in HH-2/2z of £5.79 million was written down due to the sub-economic flow rates, again resulting from early and significant water ingress. Going forwards, and as detailed above, HH-2z is now scheduled to be utilised as a water injector to support reservoir pressure for HH-1.

The net effect of the above was to increase the retained losses for the year (i.e. the total over the Company's history) to £19.04 million compared to £5.39 million in the previous financial year.

Balance Sheet

During 2020, as a result of the effects of the impairments and write downs to our exploration and oil & gas assets, non-current assets decreased to £37.78 million (2019: £46.65 million). These were charged to the income statement as highlighted above. Total current assets decreased from £8.07 million at 30 September 2019 to £2.38 million at 30 September 2020. The main reduction in current assets being in our cash position which reduced from £6.89 million at 30 September 2019 to £1.63 million at 30 September 2020.

Our total liabilities decreased to £5.07 million (2019: £13.50 million) which was as a result of repaying our convertible loan note in its entirety and reducing our trade and other payables.

Cash Flow and Financing

During the reporting period net cash outflow from operating activities prior to cash outflows in relation to investing activities was £2.77 million (2019: cash outflow of £5.73 million). The reduced outflow is primarily attributable to lower administration costs.

UKOG raised £7.73 million during the reporting period via the issue of equity, which along with the cash and cash equivalents at the beginning of the period of £6.89 million was used primarily to fund our investing activities (£7.74 million). In addition, the funds raised were used to fully repay the outstanding balance of our convertible loan notes and associated fees (£1.83 million).

As a result, UKOG had a £5.23 million net decrease in cash, and £1.63 million in cash and cash equivalents at the end of the period.

Kiran Morzaria
Finance Director
15 April 2021

KEY PERFORMANCE INDICATORS

UKOG has adopted both financial and non-financial key performance indicators (KPI's) to measure progress against our strategy. These KPI's will develop and new ones added as we progress our strategy.

Financial KPI's	Production (bopd)	Operating costs (£/bbl)*	Operating Cashflow £m																		
	<table border="1"> <thead> <tr> <th>Year</th> <th>2020</th> <th>2019</th> </tr> </thead> <tbody> <tr> <td>(bopd)</td> <td>128</td> <td>137</td> </tr> </tbody> </table> <p>HH-1 entered into production during March and are included in the current year rates. The rates are reported on a gross basis</p>	Year	2020	2019	(bopd)	128	137	<table border="1"> <thead> <tr> <th>Year</th> <th>2020</th> <th>2019</th> </tr> </thead> <tbody> <tr> <td>(£/bbl)</td> <td>28</td> <td>18</td> </tr> </tbody> </table> <p>During March 2020 HH-1 entered into production, however, due to optimisations and interventions which were carried out during the period costs were elevated and have reduced since stable production was reached.</p>	Year	2020	2019	(£/bbl)	28	18	<table border="1"> <thead> <tr> <th>Year</th> <th>2020</th> <th>2019</th> </tr> </thead> <tbody> <tr> <td>£m</td> <td>(2.77)</td> <td>(5.74)</td> </tr> </tbody> </table> <p>Operating cash outflows reduced during the reporting period as a result of lower administrative expenses.</p>	Year	2020	2019	£m	(2.77)	(5.74)
Year	2020	2019																			
(bopd)	128	137																			
Year	2020	2019																			
(£/bbl)	28	18																			
Year	2020	2019																			
£m	(2.77)	(5.74)																			
Reason for choice	The Company production will provide operating cashflow to fund our investments and deliver shareholder value. At this point in time we receive production from our ownership in the Horndean oil field which is not under our control and the Horse Hill oil field of which we own 85.635%	Operating costs per bbl will be a key focus for our operations and the focus for the Company will be to keep these costs low so as to improve the cash we can generate from our producing assets. Currently the operating costs are in relation to our ownership of the Horndean oil field (10% ownership), which is not under our control and the Horse Hill oil field of which we own 85.635%	Our cashflow is key to providing funding investing in the business and pursue our strategy. This has to date predominantly been via equity and debt funding																		
How we measure	Daily and weekly production is monitored for all producing assets and reported to senior management. Production forecasts are prepared during the year to measure progress against the production target.	Operating costs will be monitored closely, to ensure that budget targets are being met.	Cashflow forecasts are reported to the Board on a regular basis, to ensure our progress is within our budget. Long-term forecasts are also provided to ensure that the strategy of the business can be adequately funded																		

* Operating costs exclude depreciation of the oil asset and indirect management charges from UKOG

Non-Financial KPI's	Lost time injuries (LTI & LTI Frequency)
	2020 – 0, LTI Frequency 0; 2019 – 0, LTI Frequency 0
Reason for choice	Health & safety is our highest priority and we look to provide the highest level of protection to all our stakeholders
How we measure	We track HSE lagging indicators during the year, which are reported to the Board. We aim to have zero LTI's. If we have an LTI it is investigated and a clear remedial action is identified and implemented

RESERVES AND RESOURCES

The reporting period saw significant material growth across all net attributable reserve and resource categories, with mid or P50 case contingent resources more than doubling in 2020 (see Table 1, below).

Total aggregate net discovered 2C (mid case) contingent resources and 2P (mid case) reserves now stand at 37.48 mmbbl, the largest in the Company's history.

Table 1: Significant growth in UKOG net attributable reserves & resources during the reporting period

Period	UKOG 2P Reserves (producing, mmbbl)	UKOG 2C Resources (discovered, mmboe)	UKOG P50 Prospective Resources (undiscovered, mmbbl)
2019-20	0.13	37.35	13.38
2018-19	0.11	16.30	10.00
Increase (%)	13%	129%	34%

Contingent resources (i.e., recoverable resources discovered by drilling, see Table 3, below) increased significantly, with net 2C (mid or P50 case) resources increasing by 129% compared to the last reporting period. The increase was primarily via the acquisition of the Basur-Resan discovery in Turkey (net UKOG 2C 15.3 mmbbl) and by the addition of recoverable Loxley gas volumes from Xodus' September 2020 competent person's ("CP") volumetric study (net UKOG 5.5 mmboe or 32 bcf).

The Company's net attributable reserves increased by 13% versus last year due to better than predicted performance at the Horndean field, where the past year's production history demonstrated a lower than expected field decline rate.

At Horse Hill, the start of long term Portland production from HH-1 has clearly added proven producing, probable and possible reserves. However, following October 2020's intervention and subsequent production optimisation trials, which concluded in January 2021, there has only been a few months 'stable' producing conditions to assess well declines upon which to base reserves.

Consequently, as CP's generally require around a minimum of one year's stable production history to adequately capture and predict the longer term decline performance of a well (Horndean's performance, as above, demonstrates the importance of a year-long decline period), it was decided that the best practice was to assess reserves only when a more robust and fully representative decline curve analysis could be undertaken. The Company will thus wait until the next reporting period to calculate the field's reserves following the first full year of stable production.

For guidance purposes only, the Company's qualified persons ("QP") consider that the 1C value of 0.6 mmbbl carried for Horse Hill in Table 3, below, provides a reasonably representative view of HH-1's likely technical recoverable Portland reserves at the end of 2020. UKOG's QP's also currently expect that much of Horse Hill's Portland contingent resources, less produced volumes, will likely transfer into reserves following a future external CP review.

Discovered prospective resources (i.e., undiscovered but drill ready within identified exploration prospects) also significantly increased, with the best case (mid or P50 case) rising by 34% from last year. This is primarily due to the addition of Prospect A in the Turkey Resan M47-b1,b2 licence, which more than offsets the relinquishment of the A24 prospect in PEDL143.

Should the Company's joint application with AME for four further exploration blocks to the south and southwest of the Resan licence, prove successful, it is likely that net attributable contingent and prospective resources could both increase by a further significant amount. The identified extensions to oil discoveries and undrilled leads and prospects within these four blocks are currently estimated to be of similar size to the Company's Basur-Resan discovery.

RESERVES AND RESOURCES (CONTINUED)
Table 2: Recoverable Reserves mmbbl: Producing Fields, Gross and Net (as of 31 December 2020)

Asset	UKOG % Interest	Gross mmbbl			Net Attributable mmbbl			Operator
		1P	2P	3P	1P	2P	3P	
Horndean ¹	10	1.12	1.26	1.41	0.11	0.13	0.14	IGas
TOTAL (mmbbl)^{2 3}					0.11	0.13	0.14	

Notes:

1. DeGolyer and MacNaughton (“D&M”) for IGas Feb 2021, 2. Horse Hill reserve volumes await external CP verification following 12 months of stable production history, see text above, 3. Avington is temporarily shut-in, consequently no reserves are attributable, recoverable resources shown in Table 3 below.

Table 3: Contingent Resources mmbbl/mmboe (i.e., discovered and drill ready recoverable volumes)

Asset	Licence	UKOG %	Gross mmbbl/mmboe				Net Attributable mmbbl/mmboe				Operator
			1C	2C	3C	mean	1C	2C	3C	mean	
Turkey, Basur-Resan ⁴	M47 b1, b2	50	14.9	30.5	67.0	37.2	7.5	15.3	33.5	18.6	AME
Horse-Hill Portland ¹	PEDL137	85.64	0.6	1.5	3.6	1.9	0.5	1.3	3.1	1.6	HHDL
Horse-Hill Kimmeridge ⁶	PEDL137	85.64	0.4	1.6	6.1	2.7	0.3	1.4	5.2	2.3	HHDL
Loxley Gas ^{3,5}	PEDL234	100	3.1	5.5	9.3	5.9	3.1	5.5	9.3	5.9	UKOG
Arreton Portland ¹	PEDL331	95	1.4	3.7	10.3	5.1	1.3	3.5	9.8	4.9	UKOG
Arreton Oolite ¹	PEDL331	95	6.2	10.8	17.6	11.5	5.9	10.3	16.7	11.0	UKOG
Avington ²	PEDL070	5	0.5	0.7	1.0	0.7	0.03	0.04	0.05	0.04	IGas
Horndean ²	PL211	10	0.3	0.8	1.3	0.8	0.03	0.08	0.13	0.08	IGas
TOTAL mmboe							18.6	37.3	77.8	44.4	

Notes:

1. Xodus June 2018, estimates for Horse Hill are deterministic based upon per well recoveries, 2. D&M for IGas Feb 2021, estimates for Horndean and Avington are deterministic, not probabilistic, 3. Xodus September 2020, probabilistic based upon range of recovery factors, 4. Xodus June 2020, probabilistic based upon range of recovery factors, 5. 1 million bbl oil equivalent (mmboe) = 5.8 bcf, 6. RPS Jun 2019.

Table 4: Prospective Resources (i.e., exploration, drill ready but as yet undiscovered recoverable volumes)

Asset	Licence	UKOG %	Gross mmbbl				Net Attributable mmbbl			
			Low	Best	High	Mean	Low	Best	High	Mean
Turkey, Prospect A ²	M47 b1,b2	50	4.0	8.7	17.0	9.9	2.0	4.4	8.5	5.0
Godshill Portland ¹	PEDL331	95	1.7	6.8	17.4	8.6	1.6	6.5	16.5	8.2
Arreton North ¹	PEDL331	95	0.5	2.7	7.6	3.6	0.5	2.6	7.2	3.4
TOTAL							4.1	13.4	32.3	16.6

Notes:

1. Xodus June 2018, Godshill possesses the same underlying Lower Oolite potential as Arreton but this target was not reviewed by Xodus in 2018, to be included in any subsequent external CP review, 2. Xodus June 2020

HEALTH, SAFETY AND THE ENVIRONMENT

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

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

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

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

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

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

Health & Safety Review

UKOG has completed drilling and testing operations and initiated production activities at Horse Hill. In addition, the Markwells Wood well site was restored and re-planted.

There were no lost time injuries on any of UKOG's sites during the reporting period or post period. The lost time injury frequency was also zero. Two minor injuries occurred during Horse Hill-2z drilling operations. There was also a minor fire in the engine housing of the BDF28 drilling rig. The fire was quickly extinguished by site operatives, without injury.

The Environment Agency (EA) and Health and Safety Executive made a number of site visits, linked to Horse Hill well operations and production equipment.

The Competent Authority (CA) under Regulation 6 of the Control of Major Accident Hazards Regulations (2015) ("COMAH") was notified of the intention of the Horse Hill site to operate as a COMAH facility. UKOG is engaged with the CA to define a scope for Horse Hill to operate within COMAH regulations following its transition from well test to long-term production.

UKOG continues to keep good housekeeping standards on its sites. The Company continuously monitors all its live operations for noise, ensuring noise from its sites is kept to a minimum and is compliant with the levels set by the relevant site planning approval. UKOG only utilises service companies that can demonstrate commitment to our HSE standards.

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

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

Community Engagement

Our plans to be as open as possible on our dealings with local residents, particularly at Horse Hill, were hampered by illegal activities by Extinction Rebellion. On one occasion, we invited dozens of our neighbours to visit the site, but were forced to cancel at short notice because the date and time of the visit was leaked to activists who had threatened to disrupt the meeting.

HEALTH, SAFETY AND THE ENVIRONMENT (CONTINUED)

Because of our strict Covid-19 policy to ensure the safety of our staff and visitors, we kept visits to Horse Hill to a minimum.

Ahead of submitting a planning application to the Isle of Wight Council, UKOG held a Community Engagement Day for Arreton residents in mid-December 2019. The seven-hour exhibition was attended by an estimated 150 neighbours and interested parties, including local politicians and councillors.

The Company meets and communicates regularly with local police to give operational updates.

Route to Development

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

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

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

DIRECTORS' SECTION 172 STATEMENT

The following disclosure describes how the Directors have had regard to the matters set out in section 172(1)(a) to (f) and forms the Directors' statement required under section 414CZA of The Companies Act 2006. This new reporting requirement is made in accordance with the new corporate governance requirements identified in The Companies (Miscellaneous Reporting) Regulations 2018, which apply to company reporting on financial years starting on or after 1 January 2019.

The matters set out in section 172(1) (a) to (f) are that a Director must act in the way they consider, in good faith, would be most likely to promote the success of the Company for the benefit of its members as a whole, and in doing so have regard (amongst other matters) to:

- the likely consequences of any decisions in the long term;
- the interests of the company's employees;
- the need to foster the company's business relationships with suppliers/customers and others;
- the impact of the company's operations on the community and environment;
- the company's reputation for high standards of business conduct; and
- the need to act fairly between members of the company.

As set out above in the Strategic Report the Board remains focused on providing for shareholders through the long term success of the Company. The means by which this is achieved is set out further below.

Likely Consequences of any Decisions in the Long Term

The Chairman's Statement, the Chief Executive Officer's Commentary and the Strategic Review set out the Company's strategy. In applying this strategy, particularly in seeking new projects and developing current ones to deliver reserves and resource growth. The Board assesses the long term future of our projects and investments with a view to shareholder return. The approach to general strategy and risk management strategy of the group is set out in the Statement of Compliance with the QCA Code of Practice (Principles 1 and 4) on pages 27 to 28.

Interest of Employees

The Group has a very limited number of employees and all have direct access to the Executive Directors on a daily basis and to the Chairman, if necessary. The Group has a formal Employees' Policy manual which includes processes for confidential report and whistleblowing.

Need to Foster the Company's Business Relationships with Suppliers/Customers and Others

The Group continuously interacts with a variety of suppliers and customers important to its success. The Group strives to strike the right balance between engagement and communication. Furthermore, the Company works within the limitations of what can be disclosed to the various stakeholders with regards to maintaining confidentiality of market and/or commercially sensitive information. Our suppliers are fundamental to ensuring that the Group can execute its development and production strategy on time and on budget. Using quality suppliers ensures that as a business we meet the high standards of performance that we expect of ourselves and vendor partners. Our management team work closely with our suppliers, via one on one meetings and where possible supplier site visits and facility reviews to ensure our suppliers are able to meet our requirements.

Impact of the Company's Operations on the Community and Environment

The Group takes its responsibility within the community and wider environment seriously. Its approach to its social responsibilities is set out in the Statement of Compliance with the QCA Code of Practice (Principle 3) on page 27.

The Desirability of the Company Maintaining a Reputation for High Standards of Business Conduct

The Directors are committed to high standards of business conduct and governance and have adopted the QCA Code of Practice which is set out on pages 27 to 29. Where there is a need to seek advice on particular issues, the Board will consult with its lawyers and nominated advisers to ensure that its reputation for good business conduct is maintained.

DIRECTORS' SECTION 172 STATEMENT (CONTINUED)

The Need to Act Fairly Between Members of the Company

The Board's approach to shareholder communication is set out in the Statement of Compliance with the QCA Code of Practice (Principle 2) on page 27. The Company aims to keep shareholders fully informed of significant developments in the Group's progress. Information is disseminated through Stock Exchange announcements, website updates and, where appropriate, video-casts.

During 2020 the Company issued numerous stock exchange announcements on operational issues. All information is made available to all shareholders at the same time and no individual shareholder, or group of shareholders, is given preferential treatment.

Introduction to Governance

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

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

UK Oil & Gas PLC provides shareholders with a full discussion of corporate strategy within our Annual Report. A dedicated section explains how we will establish long-term shareholder value, as set out on page 3.

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

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

Key business challenges and how they may be mitigated are detailed in the Strategic Report on pages 14 to 15.

2. Seek to understand and meet shareholder needs and expectations

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

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

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

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

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

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

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

CORPORATE GOVERNANCE (CONTINUED)

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

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

Our operations:

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

For more information please refer to page 23 of the Annual Report as well as the Community section within the Company's corporate website.

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

Risk Management on pages 14 to 15 of the Annual Report details risks to the business, how these are mitigated and the change in the identified risk over the last reporting period.

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

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

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

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

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

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

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

CORPORATE GOVERNANCE (CONTINUED)

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

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

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

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

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

The Board intends to carry out an internal evaluation on individual Directors on an ad-hoc basis in the form of peer reviews and appraisals. The individual reviews and appraisals are used to identify group and individual targets which are reviewed and assessed at the end of the financial year.

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

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

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

The ethical values of UKOG including health, safety, environmental, social and community and relationships, are set out on page 23 of the Annual Report.

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

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

The Corporate Governance Statement details the company's governance structures, the role and responsibilities of each director. Details and members of the Audit Committee, Remuneration Committee, Nomination Committee and AIM Rules compliance committee can be found on from page 27 to page 33.

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

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

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

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

CORPORATE GOVERNANCE (CONTINUED)

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

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

Board of Directors

The Board consists of a team of experienced multidisciplinary members who are committed to delivering shareholder value.

Allen D Howard, Non-Executive Chairman

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

Stephen Sanderson, Chief Executive

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

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

Kiran Morzaria, Finance Director

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

Nicholas Mardon Taylor, Non-Executive Director

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

CORPORATE GOVERNANCE (CONTINUED)

Board and Committee Membership

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

The Board and its Committees

The Board of the Company consists of two Executive Directors and two Non-Executive Directors. The Non-Executive Directors are not considered independent under the FRC Code as they hold options in the Company. However, the Board considers that the Non-Executive Directors are independent of management under all other measures and is able to exercise independence of judgement.

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

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

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

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

The Board met regularly during the year. Tabulated below is the attendance of Board Members during the reporting period. The majority of the meetings held during the year were in relation to the issue of equity associated with a convertible loan note, given that this was largely procedural it was not deemed necessary for the non-executive board members to attend these meetings.

Board Member	Meetings attended (out of a total possible)
Allen D Howard	9/20
Stephen Sanderson	20/20
Kiran Morzaria	20/20
Nicholas Mardon Taylor	9/20

CORPORATE GOVERNANCE (CONTINUED)

Audit Committee

The audit committee consists of Nicholas Mardon Taylor (Chairman) and Allen D Howard. Prior to 1 August the audit committee consisted of Allen D Howard (Chairman) and Kiran Morzaria. As part of The Company’s adoption of the QCA Code on 1 August 2019 it was resolved that the Audit Committee will consist of two Non-Executive Members of the Board. The Audit Committee met once during the year.

Board member	Meetings attended (out of a total possible)
Allen D Howard	1/1
Nicholas Mardon Taylor (Appointed as Chairman 1 August 2019)	1/1

The principal duties and responsibilities of the Audit Committee include:

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

Remuneration Committee

The Remuneration Committee consists of Nicholas Mardon Taylor (Chairman) and Allen D Howard. Prior to 1 August the Remuneration Committee consisted of Allen D Howard (Chairman) and Kiran Morzaria. As part of The Company’s adoption of the QCA Code on 1 August it was resolved that the Remuneration Committee will consist of two Non-Executive Members of the Board. The Remuneration Committee did not meet during the year.

The principal duties and responsibilities of the Remuneration Committee include:

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

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

Internal Controls

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

CORPORATE GOVERNANCE (CONTINUED)

The Company's internal control procedures include the following:

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

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

UK Bribery Act

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

Relations with Shareholders

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

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

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

DIRECTORS' REMUNERATION REPORT

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

Directors' Remuneration Policy

The Company's policy is to maintain levels of remuneration sufficient to attract, motivate and retain senior executives.

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

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

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

Annual Statement

During the year no annual cash bonus scheme was adopted, as the current remuneration was viewed as sufficient to attract, motivate and retain senior executives. At the end of July the Directors agreed to an interim salary cut of between 20% and 50% of their monthly salary; this was agreed due to the impact COVID-19 had on the Group's revenues due to a significant reduction in the price of oil.

During the year and as required under the Pensions Act of 2008 the Company implemented an automatic enrolment pension scheme and contributed up to 3% of executive directors qualifying earnings. During a review of option awards in September 2020 the Remuneration Committee approved the issue of options to Directors. Further details can be found below.

Remit of the Remuneration Committee

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

Share Price Movements During the Year

The Company's share price as at 30 September 2020 was £0.0016 per share. The share price range during the year was £0.0016 to £0.0115 (2019 - £0.0082 to £0.0208).

Current Arrangement in Financial Year (Audited)

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

DIRECTORS' REMUNERATION REPORT (CONTINUED)

The Directors' emoluments for the year were as follows:

		Year ended 30 September 2020				
		Salary	Bonus	Pension	Share Based Payments	Total
Director	Board Title	£'000	£'000	£'000	£'000	£'000
Allen D Howard	Non-Executive Chairman	54	-	-	-	54
Stephen Sanderson	Chief Executive	297	-	1	-	298
Kiran Morzaria	Finance Director	115	-	-	-	115
Nicholas Mardon Taylor	Non-Executive Director	49	-	-	-	49
Total Directors		515	-	1	-	516

		Year ended 30 September 2019				
		Salary	Bonus	Pension	Share Based Payments	Total
Director	Board Title	£'000	£'000	£'000	£'000	£'000
Allen D Howard	Non-Executive Chairman	60	-	-	29	89
Stephen Sanderson	Chief Executive	314	310	1	142	766
Kiran Morzaria	Finance Director	116	-	-	37	153
Nicholas Mardon Taylor	Non-Executive Director	55	-	-	23	78
Total Directors		545	310	1	231	1,086

As at 30 September 2020, the outstanding long-term incentives, in the form of options, held by the Directors who served during the period are set out in the table below.

	At 1 October 2019	Issued during the year	lapsed / exercised during the year	At 30 September 2020	Exercise price	Date from which exercisable	Expiry date
Share options	No. million	No. million	No. million	No. million	£		
Stephen Sanderson	25	-	(25)	-	0.0040	21/01/2015	31/12/2019
Stephen Sanderson	25	-		25	0.0115	25/05/2017	24/05/2022
Stephen Sanderson	25	-		25	0.0130	27/09/2020	25/09/2024
Total	75	-		50			

	At 1 October 2019	Issued during the year	lapsed / exercised during the year	At 30 September 2020	Exercise price	Date from which exercisable	Expiry date
Share options	No. million	No. million	No. million	No. million	£		
Kiran Morzaria	20.0			20.0	0.0115	25/05/2017	24/05/2022
Kiran Morzaria	6.5			6.5	0.0130	27/09/2020	25/09/2024
Total	26.5			26.5			

DIRECTORS' REMUNERATION REPORT (CONTINUED)

	At 1 October 2019	Issued during the year	lapsed / exercised during the year	At 30 September 2020	Exercise price	Date from which exercisable	Expiry date
Share options	No. Million	No. million	No. million	No. million	£		
Allen Howard	10			10	0.0115	25/05/2017	24/05/2022
Allen Howard	5			5	0.0130	27/09/2020	25/09/2024
Total	15			15			

	At 1 October 2019	Issued during the year	lapsed / exercised during the year	At 30 September 2020	Exercise price	Date from which exercisable	Expiry date
Share options	No. million	No. million	No. million	No. million	£		
Nicholas Mardon Taylor	4			4	0.0130	27/09/2020	25/09/2024
Total	4			4			

REPORT OF THE DIRECTORS

The Directors present their annual report together with the audited consolidated financial statements of the Group for the Year Ended 30 September 2020.

Business Review and Future Developments

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

Principal Activity and Business Review

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

Results and Dividends

Loss on ordinary activities of the Group after taxation amounted to £18,957,000 (2019: Loss £5,394,000). The Directors do not recommend the payment of a dividend (2019: £nil). The Company has no plans to adopt a dividend policy in the immediate future.

Principal Risks and Uncertainties

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

Financial Risk Management Objectives and Policies

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

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

Liquidity Risk

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

Key Performance Indicators

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

Going Concern

The Directors note the substantial losses that the Group has made for the year ended 30 September 2020. The Directors have prepared cash flow forecasts for the period ending 31 December 2022, which takes into account anticipated costs savings, the current forward curve of Brent crude oil and external funding. In addition, within the forecasts, the Group has delayed its capital expenditure programme across its assets as the effects of Covid-19 have significantly constrained the supply of specialist oil sector services, equipment and civil engineering activities.

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.

The oil price assumptions within the cash flow forecasts are based on forward rates. However, given the current effects of Covid-19 and recent "OPEC+" meetings there is a high degree of uncertainty around these forward rates.

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.

REPORT OF THE DIRECTORS (CONTINUED)

Events After the Reporting Period

Events after the Reporting Period are outlined in Note 26 to the Financial Statements.

Corporate Governance

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

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 (2019 - £Nil).

Substantial Shareholdings

As at 17 March 2021, the Company had been notified of the following substantial shareholdings in the ordinary share capital:

Shareholder	Number of Ordinary Shares	Holding %
Hargreaves Lansdown (Nominees) Limited	1,614,977,774	12.47%
Interactive Investor Services Nominees Limited	1,341,630,240	10.36%
Hargreaves Lansdown (Nominees) Limited	1,227,889,628	9.48%
HSDL Nominees Limited	975,377,241	7.53%
Barclays Direct Investing Nominees Limited	897,198,462	6.93%
Hargreaves Lansdown (Nominees) Limited	819,468,309	6.33%
Interactive Investor Services Nominees Limited	761,268,945	5.88%
HSDL Nominees Limited	617,244,442	4.76%
HSBC Client Holdings Nominee (Uk) Limited	474,611,762	3.66%
Pershing Nominees Limited	407,951,557	3.15%

Current Board & Directors Interests

Allen D Howard	Non-Executive Chairman
Stephen Sanderson	Chief Executive Officer
Kiran Morzaria	Finance Director
Nicholas Mardon Taylor	Non-Executive Director

The directors hold options to purchase new ordinary shares in the Company, details of which are specified in the Remuneration Report on page 34 to 36. In addition, Kiran Morzaria holds 4,508,178 ordinary shares in the Company.

Auditor

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

Annual General Meeting

Notice of the forthcoming Annual General Meeting has been enclosed separately.

REPORT OF THE DIRECTORS (CONTINUED)

Statement of Directors' Responsibilities

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

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

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

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

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

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

Statement as to Disclosure of Information to the Auditor

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

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

ON BEHALF OF THE BOARD

Stephen Sanderson
Director
15 April 2021



OPINION

We have audited the financial statements of UK Oil & Gas plc (the 'parent company') and its subsidiaries (the 'group') for the year ended 30 September 2020 which comprise the Consolidated Statement of Comprehensive Income, the Consolidated and Parent Company Statements of Financial Position, the Consolidated and Parent Company Statements of Changes in Equity, the Consolidated and Parent Company Statements of Cash Flow and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and international accounting standards in conformity with the requirements of the Companies Act 2006 and as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 30 September 2020 and of the group's and parent company's loss for the year then ended;
- the group financial statements have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006;
- the parent company financial statements have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

BASIS FOR OPINION

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

CONCLUSIONS RELATING TO GOING CONCERN

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

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

OUR APPLICATION OF MATERIALITY

For the purposes of determining whether the financial statements are free from material misstatement, we define materiality as a magnitude of misstatement that makes it probable that the economic decisions of a reasonable knowledgeable person, relying on the financial statements, would be changed or influenced. We also determine a level of performance materiality which we use to assess the extent of testing needed to reduce an appropriately low level in the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole.

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

Materiality for the group financial statements was set at £788,000. This was calculated based in 1.5% of net assets for the year. Net assets was used as the benchmark for the basis of materiality being the key area of relevance to stakeholders in assessing the financial performance of the group in its early years of production. The same basis for the calculation of materiality for the parent company financial statements was used, however restricted to £787,999, to ensure a level below that of group materiality as required by ISA (UK) 600.

We also determine a level of performance materiality which we use to assess the extent of testing needed to reduce to an appropriately low level probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole. Performance materiality for the group and part company was set at £472,800 and £472,799 respectively, being 60% of materiality for the financial statements as a whole.

We agreed to report to those charged with governance all corrected and uncorrected misstatements we identified through our audit with a value in excess of £39,400 for both the group and parent company. We also agreed to report any other audit misstatements below that threshold that we believe warranted reporting on qualitative grounds.

AN OVERVIEW OF THE SCOPE OF OUR AUDIT

The scope of our audit was influenced by our application of materiality. The quantitative and qualitative thresholds for materiality determine the scope of our audit and the nature, timing and extent of our audit procedures.

As part of our planning, we assessed all components of the group for their significance under ISA (UK) 600 in order to determine the scope of the work to be performed. Those entities of the group which were considered to be significant components, being UK Oil & Gas plc, Horse Hill Developments Limited and UKOG (137/246) Holdings Limited, were subject to full scope audit procedures, and those considered to be material, being UKOG (234) Limited and UKOG (37/246) Limited were subject to audit procedures on significant and identified risk areas only, in accordance with ISA (UK) 600 for group reporting purposes. Procedures were then performed to address the risks identified and for the most significant assessed risks of material misstatement, the procedures are outlined below in the key audit matters section of this report. The remaining components were subject to analytical review procedures.

We did not rely on the work of any component auditors.

KEY AUDIT MATTERS

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

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

Key Audit Matter	How the scope of our audit responded to the key audit matter
<p>Carrying value and classification of exploration and evaluation assets (Note 11)</p> <p>There is a risk that the assets are incorrectly valued or need to be impaired. As Horse Hill entered the production stage this year, there is also a risk that assets are incorrectly included as intangibles when they should be reclassified to Property Plant and Equipment (“PPE”).</p>	<p>Our work in this area included:</p> <ul style="list-style-type: none"> ▪ Reviewing the impairment workings prepared by management, and reconciling the key inputs into the calculation to supporting documentation and ensuring the carrying value of the assets is not impaired; ▪ Vouching a sample of additions in the period to supporting documentation and ensuring they have been capitalised in line with the relevant IFRSs; ▪ Reviewing the effect of COVID-19 on the group and the potential profitability of said assets; and ▪ Vouching a sample of assets at the year end to the licences in place and ensure they are valid.
<p>Carrying value and classification of producing assets (Note 12)</p> <p>There is a risk of material misstatement around the carrying value of PPE, whether any impairment is required and if the correct assets have been included within PPE as opposed to Exploration and Evaluation Assets.</p>	<p>Our work in this area included:</p> <ul style="list-style-type: none"> ▪ Reviewing managements valuation workings, and reconciling the key inputs into the calculation to supporting documentation and ensuring the carrying value of the assets is fairly stated; ▪ Reviewing the effect of COVID-19 on the group and the potential profitability of said assets; ▪ Reviewing of the unit of production method of depletion and performing a recalculation thereto and ensuring the value is fairly stated; ▪ Verifying the mathematical accuracy of the calculations prepared by management; ▪ Reviewing the key inputs used within the calculations and challenging all estimates used and obtaining the relevant support; and ▪ Testing a sample of assets to support to ensure existence and correct classification.

OTHER INFORMATION

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information. Our opinion on the group and parent company financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon. In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

OPINIONS ON OTHER MATTERS PRESCRIBED BY THE COMPANIES ACT 2006

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

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

MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

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

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

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

RESPONSIBILITIES OF DIRECTORS

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

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

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

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

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

USE OF OUR REPORT

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

Alistair Dominic Roberts (Senior Statutory Auditor)
For and on behalf of PKF Littlejohn LLP
Statutory Auditor

15 Westferry Circus
Canary Wharf
London E14 4HD

Date: 15 April 2021

FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR YEAR ENDED 30 SEPTEMBER 2020

	Notes	30 Sep 2020 £'000	30 Sep 2019 £'000
Revenue		908	213
Cost of sales			
Depletion, Depreciation and Amortisation		(1,367)	(225)
Other Cost of Sales		(1,171)	(97)
Gross (loss)/profit		(1,630)	109
Operating expenses			
Administrative expenses		(1,755)	(3,939)
Impairment expense	11	(10,652)	(2)
Foreign exchange gains/(losses)		(16)	(45)
Share based payments expense	22	0	(693)
Operating (loss)	6	(14,053)	(4,788)
Gain on settlements of financial instruments			
Finance Income		0	1
Finance Cost	8	(286)	(607)
Share of associate loss	14	-	-
Decommissioning Expense	20	-	-
Exploration Write-off	11	(6,598)	-
(Loss) before taxation		(20,937)	(5,394)
Taxation	9		-
Retained (Loss) for the year		(20,937)	(5,394)
Retained (loss) attributable to;			
Equity holders of the Parent		(20,937)	(5,394)
Non-Controlling Interests		-	-
		(20,937)	(5,394)

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

Earnings per share		Pence	Pence
Basic and diluted	10	(0.24)	(0.09)

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

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 SEPTEMBER 2020**

	Notes	2020 £'000	2019 £'000
Assets			
Non-current assets			
Exploration & evaluation assets	11	29,259	27,224
Decommissioning Asset	11	285	354
Goodwill	11	-	17,443
Oil & Gas properties	12	6,380	1,434
Property, Plant & Equipment	12	1,852	193
Investment in associate	14	-	-
Total non-current assets		37,776	46,648
Current assets			
Inventory	15	1	1
Trade and other receivables	16	742	1,179
Cash and cash equivalents	17	1,634	6,892
Total current assets		2,378	8,072
Total Assets		40,154	54,720
Current liabilities			
Trade and other payables	18	(1,981)	(6,026)
Borrowings	19	(3,084)	(7,473)
Total current liabilities		(5,065)	(13,499)
Non-current Liabilities			
Provisions	20	(1,031)	(427)
Total non-current liabilities		(1,031)	(427)
Total liabilities		(6,096)	(13,926)
Net Assets		34,058	40,794
Equity			
Share capital	21	12,694	12,250
Share premium account		99,528	85,773
Share based payment reserve	23	1,811	1,811
Accumulated losses		(80,088)	(59,153)
		33,944	40,681
Non-controlling interest		113	113
Total shareholders' equity		35,058	40,794

These financial statements were approved by the Board of Directors on 15 April 2021 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 2020**

	Notes	2020 £'000	2019 £'000
Assets			
Non-current assets			
Exploration & evaluation assets	11	1,644	2,301
Investment in subsidiary companies	13	21,406	26,206
Property, Plant and Equipment	12	1,773	108
Total non-current assets		24,823	28,615
Current assets			
Trade and other receivables	16	546	310
Intercompany balances		26,690	26,974
Cash and cash equivalents	17	1,346	6,196
Total current assets		28,583	33,480
Total Assets		53,406	62,095
Current liabilities			
Trade and other payables	18	(1,419)	(4,430)
Borrowings	19	-	(4,500)
Total Current Liabilities		(1,419)	(8,930)
Total liabilities		(1,419)	(8,930)
Net Assets		51,986	53,165
Shareholders' Equity			
Share capital	21	12,694	12,250
Share premium account		99,528	85,773
Share Based Payment Reserve	23	1,811	1,811
Accumulated losses		(62,046)	(46,669)
Total shareholders' equity		51,986	53,165

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 £15,378,000 (2019: loss £3,905,000).

These financial statements were approved by the Board of Directors on 15 April 2021 and are signed on its behalf by:



Stephen Sanderson
Director

Kiran Morzaria
Director

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

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 SEPTEMBER 2020**

	Share capital £'000	Share premium £'000	Share based payment reserve £'000	Accumulated losses £'000	Total £'000	Non Controlling Interests £'000	Total £'000
Balance at 1 October 2018	12,141	75,799	1,590	(53,393)	36,137	651	36,788
Loss for the year	-	-	-	(5,394)	(5,394)	-	(5,394)
Movement on reserves re acquisitions	-	-	-	(838)	(838)	(538)	(1,376)
Total comprehensive income	-	-	-	(6,232)	(6,232)	(538)	(6,770)
Issue of shares	109	10,183	-	-	10,292	-	10,292
Cost of share issue	-	(209)	-	-	(209)	-	(209)
Share option expired	-	-	(472)	472	-	-	-
Share based payments	-	-	693	-	693	-	693
Total transactions with owners	109	9,974	221	(5,760)	4,544	(538)	4,006
Balance at 30 September 2019	12,250	85,773	1,811	(59,153)	40,681	113	40,794
Loss for the year	-	-	-	(20,937)	(20,937)	-	(20,937)
Movement on reserves re acquisitions	-	-	-	-	-	-	-
Total comprehensive income	-	-	-	(20,937)	(20,937)	-	(20,937)
Issue of shares	444	14,240	-	-	14,684	-	14,684
Cost of share issue	-	(485)	-	-	(485)	-	(515)
Total transactions with owners	444	13,755	-	(20,937)	(6,738)	-	(6,738)
Balance at 30 September 2020	12,694	99,528	1,811	(80,088)	33,944	113	34,058

**COMPANY STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 SEPTEMBER 2020**

	Share capital £'000	Share premium £'000	Share based payment reserve £'000	Accumulated losses £'000	Total £'000
Balance at 1 October 2018	12,141	75,799	1,590	(43,236)	46,294
Loss for the year	-	-	-	(3,905)	(3,905)
Total comprehensive income	-	-	-	(3,905)	(3,905)
Issue of shares	109	10,183	-	-	10,292
Cost of share issue	-	(209)	-	-	(209)
Share option expired	-	-	(472)	472	-
Share based payments	-	-	693	-	693
Total transactions with owners	109	9,974	221	472	10,776
Balance at 30 September 2019	12,250	85,773	1,811	(46,669)	53,165
Loss for the year	-	-	-	(15,378)	(15,378)
Total comprehensive income	-	-	-	(15,378)	(15,378)
Issue of shares	444	14,240	-	-	14,684
Cost of share issue	-	(485)	-	-	(485)
Total transactions with owners	444	13,755	-	-	14,199
Balance at 30 September 2020	12,694	99,528	1,811	(62,047)	51,986

**CONSOLIDATED STATEMENT OF CASH FLOW
FOR THE YEAR ENDED 30 SEPTEMBER 2020**

	2020	2019
	£'000	£'000
Cash flows from operating activities		
Loss from operations	(14,053)	(4,788)
Depletion & impairment	11,995	228
Share based payment charge	-	693
Cash movement on provisions	(8)	(936)
(Increase) in inventories	(1)	4
(Increase) / decrease in trade & other receivables	437	36
Increase / (decrease) in trade & other payables	(1,142)	(964)
Net cash (outflow) / inflow from operating activities	(2,773)	(5,726)
Cash flows from investing activities		
Expenditures on exploration & evaluation assets	(7,360)	(3,125)
Expenditures on oil & gas properties	(4)	-
Expenditures on plant, property & equipment	(371)	(128)
Payments for acquisition of subsidiary	-	(5,060)
Net cash acquired on acquisition of subsidiary	-	6
Net cash (outflow) from investing activities	(7,735)	(8,307)
Cash flows from financing activities		
Proceeds from issue of share capital	7,734	3,520
Share issue costs	(485)	(209)
(Repayments)/Proceeds of convertible loan note	(1,825)	5,500
Convertible loan financing fees	(175)	(313)
Net cash inflow from financing activities	5,249	8,498
Net change in cash and cash equivalents	(5,258)	(5,535)
Cash and cash equivalents at beginning of the period	6,892	12,427
Cash and cash equivalents at end of the period	1,634	6,892

**COMPANY STATEMENT OF CASH FLOW
FOR THE YEAR ENDED 30 SEPTEMBER 2020**

	2020	2019
	£'000	£'000
Cash flows from operating activities		
Operating profit / (loss)	(15,675)	(4,239)
Add back: depreciation & impairment	14,226	-
Share based payment charge	0	693
Decrease in trade & other receivables	(236)	217
Increase in trade & other payables	(111)	234
Net cash (outflow) from operating activities	(1,797)	(3,095)
Cash flows from investing activities		
Expenditures on exploration & evaluation assets	(645)	(288)
Expenditures on property, plant & equipment	(324)	(116)
Loan advanced to subsidiary	(7,332)	(3,687)
Payments on acquisition of subsidiary	-	(4,276)
Net cash (outflow) from investing activities	(8,302)	(8,367)
Cash flows from financing activities		
Proceeds from issue of share capital	7,734	3,520
Share issue costs	(485)	(209)
(Repayments)/Proceeds of convertible loan note	(1,825)	5,500
Convertible loan financing fees	(175)	(313)
Net cash inflow from financing activities	5,294	8,498
Net change in cash and cash equivalents	(4,850)	(2,964)
Cash and cash equivalents at beginning of the period	6,196	9,160
Cash and cash equivalents at end of the period	1,346	6,196

NOTES TO THE FINANCIAL STATEMENTS

1. Corporate Information

The consolidated financial statements of UK Oil & Gas PLC (the Company) and its subsidiaries (collectively, the Group), for the year ended 30 September 2020 were authorised for issue by the directors on 15 April 2021. UK Oil & Gas PLC (the Company & parent) is a public limited company incorporated and registered in the United Kingdom and listed on the Alternative Investment Market (AIM). The registered office is located at The Broadgate Towers, 20 Primrose Street, London EC2A 2EW.

The Group is principally engaged in oil production and oil & gas exploration and evaluation (see Note 6). Information on the Group's structure is provided in Note 13 and information on other related parties is provided in Note 27.

2. Principal Accounting Policies

a) Basis of preparation

The consolidated financial statements of the UK Oil & Gas plc (the Company) and subsidiaries (the Group) have been prepared in accordance with International Financial Reporting Standards in conformity with the requirements of the Companies Act 2006 ("IFRSs") as they apply to the Group for the year ended 30 September 2020 and with the Companies Act 2006.

The accounting policies have been applied consistently throughout the preparation of these financial statements, the financial report is presented in Pound Sterling (£) and all values are rounded to the nearest thousand pounds (£'000) unless otherwise stated. The consolidated financial statements provide comparative information in respect of the previous period.

Subsidiary Undertakings Exempt from Audit

UK Oil & Gas PLC has guaranteed the liabilities of the subsidiaries listed below under section 479A of the Companies Act 2006 in respect of the year ended 30 September 2020.

UKOG (234) Ltd - 07055133
UKOG (GB) Limited - 04050227
UKOG Solent Limited - 0500092
UKOG Weald Limited - 04881234
UKOG (137/246) Holdings Ltd - 09010542
UKOG (137/246) Ltd – 06807023
UK Oil & Gas Investments Ltd - 11252712
UKOG Turkey Ltd - 10212262

New and Amended Standards and Interpretations

During the year, the Group adopted the following new and amended IFRSs for the first time for the reporting period commencing 1 October 2019:

IFRS 16 *Leases*
IFRIC Interpretation 23 *Uncertainty over Income Tax Treatment*
Amendments to IAS 28: *Long-term interests in associates and joint ventures*

There is no material impact on the financial statements following the adoption of these new standards and interpretations.

New Standards and interpretations Not Yet Adopted

Certain new standards, interpretations and amendments to existing standards have been published that are effective for reporting periods starting 1 January 2020. These have not been early adopted by the Group and are not expected to have a material impact on the entity in the current or future reporting periods:

IAS 1 and IAS 8 Definition of Material
IFRS 3 Definition of a Business – Amendments to IFRS2
The Conceptual Framework for Financial Reporting

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

b) Going Concern

The Directors note the substantial losses that the Group has made for the year ended 30 September 2020. The Directors have prepared cash flow forecasts for the period ending 30 September 2022, which takes into account anticipated costs savings, the current forward curve of Brent crude oil and external funding.

The Group closely monitor and manage its liquidity risks. Cash forecasts for the Group are regularly produced based on, inter alia, management's best estimate of the Group's production and expenditure forecasts and future oil prices. In addition, within the forecasts, the Group has delayed its capital expenditure programme across its assets as the effects of Covid-19 have significantly constrained the supply of specialist oil sector services, equipment and civil engineering activities. 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.

In the first quarter of 2020, the oil price has been affected by the global spread of COVID-19 and the resultant reduction in oil demand. This situation has since been compounded by the failure of OPEC to reach an agreement on constraining supply and the decision of several countries to increase output. At the date of this report, there remains significant uncertainty over the impact of COVID-19 on future global demand for oil and therefore the price of oil.

The Group's base case going concern model was run with average oil prices of \$51.5/bbl. for March 2021 to September 2022. There is a high degree of uncertainty around these forward rates. 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 2020 the Company had cash and cash equivalents of £1,634,000 and borrowings of £3,084,000. These borrowings are due by the Company's subsidiary, Horse Hill Developments Ltd, to its shareholders, There is no repayment schedule associated with this loan and repayment is determined by the directors of Horse Hill Developments Ltd. The intent is to repay this loan from the free cash flow generated from the HH-1 well or any other further developments on the license areas of Horse Hill Developments Ltd. The Company has minimal contractual expenditure commitments and the Board considers that in conjunction with equity financing, the present funds are 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.

c) Basis of consolidation

The consolidated financial statements present the results of UK Oil & Gas PLC and its subsidiaries as if they formed a single entity. The financial statements of subsidiaries used in the preparation of consolidated financial statements are based on consistent accounting policies to the parent. All intercompany transactions and balances between Group companies, including unrealised profits arising from them, are eliminated in full.

At 30 September 2020, the Group comprised the Company and entities controlled by UK Oil & Gas PLC (its subsidiaries). No new subsidiaries were acquired during the year, and none were dissolved / struck off or liquidated.

d) Business combinations

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

d) Business combinations (continued)

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

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

Contingent consideration is classified either as equity or a financial liability. Amounts classified as a financial liability are subsequently remeasured to fair value with changes in fair value recognised in profit or loss. Contingent consideration classified as equity is not remeasured and its subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost (being the excess of the consideration transferred and the amount recognised for non-controlling interests and any previous interest held of the net identifiable assets acquired and liabilities assumed). If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the difference is recognised in profit or loss.

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

e) Joint arrangements

Certain of the Group's licence interests are held jointly with others under arrangements whereby unincorporated and jointly controlled ventures are used to explore, evaluate and ultimately develop and produce from its oil & gas interests. The Group's share of assets, liabilities, income and expenditure of these joint operations, have been classified in the appropriate balance sheet and income statement headings, except where its share of such amounts remain the responsibility of another party in accordance with the terms of carried interests.

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

f) Revenue

Revenue comprises the invoiced value of goods and services supplied by the Group, excluding value added tax and trade discounts. Revenue is recognised when control passes to the customer and there is no unfulfilled obligation that could affect the customer's acceptance of the goods. In the case of oil and petroleum products, this generally occurs when the product is physically transferred into a vessel, pipe or other delivery mechanism.

Revenue from the production of oil, from fields in which the Group has an interest with other producers, is recognised based on the Group's working interest and the terms of the relevant production sharing contracts. Differences between oil lifted and sold and the Group's share of production are not significant. Revenues from the sale of oil produced as a by-product of the evaluation or "testing" phase of a well are offset against the cost of the intangible asset that is being created. This can be seen by reference to Note 11.

g) Non-current assets

Goodwill

Goodwill is measured as described in Business Combinations. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill is not amortised but it is tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired and is carried at cost less accumulated impairments.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

g) Non current assets (continued)

Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose. The units or groups of units are identified at the lowest level at which goodwill is monitored for internal management purposes, being the operating segments (Note 5).

Intangible Exploration & Evaluation Assets

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

- Pre-licence costs (costs incurred prior to obtaining the legal rights to explore an area) are expensed immediately to the Income Statement
- Exploration licence and leasehold land and 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.
- 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 consumables, drilling (including coring and sampling), evaluation of technical feasibility and commercial viability (including appraisal drilling and production testing).
- Revenues generated from the sale of hydrocarbons during this phase are offset against the cost of the intangible asset.

Exploration and evaluation assets are assessed for impairment at each reporting date, before reclassification and whenever facts and circumstances suggest that they may be impaired. If no future activity is planned, the licence has been relinquished or has expired, or where development is likely to proceed but there are indications that the exploration and evaluation asset costs are unlikely to be recovered in full either by development or through sale, the carrying value of the asset is written off to the Income Statement.

Property, Plant and Equipment - Oil & Gas Properties

Oil & 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 any associated finance lease is also included within property, plant and equipment.

Oil & gas properties are depreciated/amortised on a unit-of-production basis over the total proved developed and undeveloped reserves of the field concerned. 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.

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

g) Non current assets (continued)

Other Property, Plant and Equipment

Other property, plant and equipment is stated at cost to the Group less accumulated depreciation. These assets are generally depreciated on a straight-line basis over their estimated useful lives, which is between 2 and 10 years depending on the type of asset.

Decommissioning

A provision for decommissioning is recognised where a liability for the removal of production facilities or site restoration exists. A corresponding asset is included in the appropriate category of the Group's non-current assets (intangible exploration and evaluation assets and property, plant and equipment) depending on the underlying accounting treatment for the operations or asset leading to the decommissioning provision. The asset is assessed for impairment and depleted as necessary.

h) Financial Instruments

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 receivables, 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.

Cash and cash equivalents comprise cash on hand and short term deposits. Any interest earned is classified as interest income within finance income.

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.

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.

Derivative Financial Instruments

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

h) Financial Instruments (continued)

Impairment of Financial Assets

At the end of each reporting period, a provision is made if there is sufficient evidence that a financial asset or group of financial assets has been impaired. 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.

i) 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.

j) Taxation

The tax charge includes both current and deferred tax.

Current tax assets and liabilities are measured at the amount expected to be paid to or received from the tax authorities, calculated using tax rates that have been enacted or substantively enacted by the balance sheet date. Taxable profits or losses differ from the reported profit or loss before taxation in the Income Statement as it excludes items that are taxable or deductible in different periods, as well as items that are never deductible or taxable.

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. 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.

k) 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).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

k) Share-Based Payments (continued)

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.

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.

l) Equity

Equity comprises the following:

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

m) Foreign currencies

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

3. 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 during the reporting period, and reported amounts of assets and liabilities, 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. However, actual outcomes can differ from these estimates.

In particular, the Group has identified the following areas where significant judgements, estimates and assumptions are required, and where if actual results were to differ, this could materially affect the financial position of financial results reported in a future period. 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.

Judgements

(i) 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.

(iii) Hydrocarbon reserve and resource estimates

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.

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

development costs are estimated taking into account the level of development required to produce the reserves by reference to operators, where applicable, and internal engineers.

The current long-term Brent oil price assumption used in the estimation of reserves is US\$64/bbl. The carrying amount of oil & gas development and production assets at 30 September 2020 is shown in Note 12.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

3. Significant accounting judgements, estimates and assumptions (continued)

(iv) Recoverable value of intangible exploration and evaluation assets and goodwill

The Group has capitalised intangible exploration and evaluation assets in accordance with IFRS 6. Significant judgement is required to determine whether it continues to be appropriate to carry these costs on the balance sheet and whether the assets have been impaired.

The key areas in which management have applied judgement include the Group's intention to proceed with a future work programme for a prospect or licence, the likelihood of licence and planning permission renewal, plans for relinquishment, assessment of results from wells or geological or geophysical studies, and the assessment of whether the carrying value of the exploration and evaluation assets is unlikely to be recovered in full from successful development or by sale.

Goodwill is assessed in each reporting period to determine whether there is any impairment.

In both the above areas, the assessments include estimates and assumptions such as long-term oil prices, foreign exchange rates, discount rates, reserves, production profiles and capital expenditure, all of which are subject to risk and uncertainty. It is possible therefore that changes in these estimates may impact the recoverable values of goodwill and exploration and evaluation assets.

Details of the Group's intangible exploration and evaluation assets and goodwill are disclosed in Note 11 to the financial statements.

(v) Recoverable value of property, plant and equipment

Management reviews the Group's reported property, plant and equipment 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 requires the use of key assumptions and judgements. such as long-term oil prices, foreign exchange rates, discount rates, reserves, production profiles and capital expenditure, all of which are subject to risk and uncertainty.

Details of the Group's property, plant and equipment are disclosed in Note 12 to the financial statements.

(vi) Decommissioning costs

The estimated cost of decommissioning at the end of the producing lives of fields is periodically reviewed and is based on forecast prices and technology at the balance sheet date. Provision is made for the estimated cost using a discounted cash flow method and a risk free rate of return.

Details of the Group's decommissioning provisions are disclosed in Note 20 to the financial statements

(vii) Deferred tax asset recognition

Deferred tax assets are recognised for unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and the level of future taxable profits together with future tax planning strategies.

Estimates of future taxable profits are based on cash flows expected to be generated from internal estimates of projected production and costs.

Details of the Group's deferred tax assets, including those not recognised due to uncertainty regarding the future utilisation, are disclosed in Note 9 to the financial statements.

4. Business Combinations and acquisition of non-controlling interests

During the reporting period there were no business combinations or acquisition of non-controlling interests.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

3. Business Combinations and acquisition of non-controlling interests (continued)

2019 Business Combinations:

Acquisition of the Magellan Petroleum (UK) Investment Holdings Limited

On 11 September 2019 through UK Oil & Gas PLC, the Group announced the completion of the acquisition of the Magellan Petroleum (UK) Investment Holdings Limited ("Magellan"), for a total consideration of £12,000,000, comprising £7,000,000 in UKOG ordinary shares and £5,000,000 in cash. £8,000,000 was paid at the acquisition date, with £3,000,000 deferred until 31 December 2019 and £1,000,000 deferred until 31 March 2020.

The acquisition increased the Group's direct interest in the Horse Hill oil field, held through the PEDL137 and PEDL246 licences, from 50.635% to 85.635%. Following acquisition, Magellan was re-named "UKOG (137/246) Holdings Ltd".

The Company issued 275,988,960 shares as initial consideration. The fair value of the shares is calculated with reference to the quoted price of the shares of the Company at the date of acquisition, which was 1.087p per share. Transaction costs of £217,000 were expensed and are included in administrative expenses. The attributable costs of the issuance of the shares have been charged directly to equity as a reduction in the share premium.

The fair values of the identifiable assets and liabilities of Magellan arising on the day of the business combination are as follows:

	Fair Value recognised on acquisition
	£'000
Assets	
Intangible Assets: Exploration Costs	840
Trade & other receivables	32
Cash	0
	872
Liabilities	
Trade & other payables	(25)
Net identifiable assets acquired at fair value	847
Total consideration / acquisition cost	12,000
Excess value allocated to value of the Licences	11,153
<i>Purchase consideration</i>	
Cash paid	5,000
Shares issued	3,000
Deferred consideration liability	4,000
Total consideration	12,000
<i>Analysis of cash flows on acquisition</i>	
Payment on acquisition of a subsidiary	(5,000)
Net cash acquired on acquisition	6
Transaction costs of the acquisition (included in cash flows from operating activities)	(217)
Net cash flow on acquisition	(5,211)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Business Combinations and acquisition of non-controlling interests (continued)

Deferred consideration

As part of the purchase agreement with the previous owner of Magellan, deferred consideration of £4,000,000 was agreed. This has been paid in UKOG shares with 331,125,828 shares issued at 0.906p each (£3,000,000) for settlement on 31 December 2019 and with 255,102,041 shares issued at 0.392 pence each (£1,000,000) for settlement on 31 March 2020

Acquisition of Horse Hill Developments Ltd ("HHDL")

Acquisition of a 6% interest in Horse Hill Developments Ltd

On 21 February 2019, through UK Oil & Gas PLC, the Group acquired an additional 6% interest in Horse Hill Developments Ltd, increasing its ownership interest to 77.9%. Equity consideration of £2,100,000 was paid to the non-controlling shareholders, through the issuance of 129,629,630 UKOG shares at 1.62p per share. The carrying value of the net assets of Horse Hill Developments Ltd (excluding goodwill on the original acquisition) was £31,000. Following is a schedule of additional interest acquired in Horse Hill Developments Ltd:

	<u>£'000</u>
Equity consideration paid to non-controlling shareholders	2,100
Loan balances novated on acquisition	(784)
Additional cash consideration paid to Gunsynd PLC in relation to prior acquisition	60
Carrying value of the additional interest in Horse Hill Developments Ltd	<u>(538)</u>
Difference recognised in retained earnings	<u>838</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

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

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

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

Group	Oil production	Oil exploration & evaluation	Corporate & Administrative	Consolidated
Year ended 30 September 2020	£'000	£'000	£'000	£'000
Revenue				
External Customers	908	-	-	908
Total revenue	908	-	-	908
Results				
Depreciation, Depletion & Amortisation	(756)	(573)	(38)	(1,367)
Exploration and Production Write offs & Impairment	(10,652)	(6,598)	-	(17,250)
Profit/(loss) before & after taxation	(17,870)	(689)	(2,378)	(20,937)
Segment assets	10,011	4,641	25,502	40,154
Segment liabilities	(3,788)	(890)	(1,418)	(6,096)
Other disclosures:				
Goodwill on acquisition	-	-	-	-
Capital expenditure (1)	1,770	7,360	-	9,130

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

5. Segment Reporting (continued)

Group	Oil production	Oil exploration & evaluation	Corporate & Administrative	Consolidated
Year ended 30 September 2019	£'000	£'000	£'000	£'000
Revenue				
External Customers	213	-	-	213
Total revenue	213	-	-	213
Results				
Depreciation, Depletion & Amortisation	(17)	(200)	(8)	(225)
Exploration Write offs & Impairment	-	(2)	-	(2)
Profit/(loss) before & after taxation	21	(602)	(4,813)	(5,394)
Segment assets	310	45,603	8,807	54,720
Segment liabilities	(101)	(9,415)	(4,410)	(13,926)
Other disclosures:				
Goodwill on acquisition	-	17,443	-	17,443
Capital expenditure (1)	-	3,253	-	3,253

(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.

6. Operating Loss

Group	2020	2019
	£'000	£'000
Operating (loss) is stated after charging:		
– Directors' remuneration – fees & salaries	515	855
– Employee Benefit Trust charge	7	25
– Auditors' remuneration		
Audit-related assurance services	56	43
Other compliance services	-	-
– Depletion of oil & gas properties	743	15

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

7. Directors and Employees

The Company employed the services of an average of 13 Employees in the year (2019: 11), of which an average of 4 (2019: 4) were executive and non-executive Directors. Remuneration in respect of these employees was:

Group	2020 £'000	2019 £'000
Employment costs, including Directors, during the year:		
Wages and salaries	1,423	1,401
Social security costs	179	180
Employee pension costs	11	7
Consultancy fees	-	200
Benefits in kind	6	-
Share based payments	-	693
	1,619	2,481
Average number of persons, including executive Directors employed		
	No.	No.
Administration	7	7
Operations	6	4
	13	11
Directors' remuneration		
	£'000	£'000
Emoluments	519	1,086
	2020 £'000	2020 £'000
Stephen Sanderson	301	766
Kiran Morzaria	115	153
Allen Howard	54	89
Nicholas Mardon Taylor	49	78
Total Directors Emoluments	519	1,086

	Fees and salaries £'000	Bonuses £'000	Pension £'000	Benefits in Kind £'000	Share based payments (*) £'000	Total £'000
2020						
S Sanderson	297	-	1	3	-	301
K Morzaria	115	-	-	-	-	115
A Howard	54	-	-	-	-	54
N Mardon Taylor	49	-	-	-	-	49
	515	-	1	3	-	519

	Fees and salaries £'000	Bonuses £'000	Pension £'000	Benefits in Kind £'000	Share based payments (*) £'000	Total £'000
2019						
S Sanderson	313	310	1	-	142	766
K Morzaria	116	-	-	-	37	153
A Howard	60	-	-	-	29	89
N Mardon Taylor	55	-	-	-	23	78
	545	310	1	-	231	1,086

* Share based payments are non-cash remuneration by way of the issue of share options in the company.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

8. Finance Costs

	2020	2019
	£'000	£'000
Loan interest due to non-controlling interests	111	258
Convertible loan note fees	175	312
Unwind discount on decommissioning provision	23	37
Finance Costs	309	607

9. 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:

	2020	2019
	£'000	£'000
Loss for the year before tax	(19,041)	(5,394)
Tax rate 40% (30% for ring fence activities plus 10% ring fence supplement)	40%	19%
Expected tax credit	(7,616)	(1,025)
Tax adjustment for non-deductible expenditure	388	154
Tax impact of capital allowances	(10)	-
Impact of losses taxed at different rates	576	-
Tax impact of losses carried forward	6584	-
Future income tax benefit not brought to account	78	871
Actual tax expense	-	-

The Group estimated carried forward tax losses are £6,529,000. None of which are recognised as a deferred tax asset.

10. Earnings 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	2020	2019
	£'000	£'000
(Loss) attributable to ordinary shareholders	(20,937)	(5,394)

	Number	Number
Weighted average number of ordinary shares for calculating basic loss per share	8,577,532,755	5,857,965,158

	Pence	Pence
Basic and diluted loss per share	(0.24)	(0.09)

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. The potential amount of dilutive shares is 351,931,372, which represents the outstanding options and warrants.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

11. Intangible assets

	Exploration & evaluation costs £'000	Group Decommissioning Asset £'000	Goodwill £'000	Total £'000	Company Exploration & evaluation costs £'000
Cost & Net Book Value					
As at 1 October 2018	22,644	362	6,290	29,296	1,400
Acquired through Business Combinations (Note 4)	841	-	11,153	11,994	-
Additions	6,150	7	-	6,157	901
Revenues from sale of by-product	(2,411)	-	-	(2,411)	-
Exploration Write offs	-	-	-	-	-
Amortisation	-	(13)	-	(13)	-
As at 30 September 2019	27,224	355	17,443	45,021	2,344
Reclassification (Note 4)	17,443	-	(17,443)	-	-
Additions	9,116	596	-	9,712	601
Revenues from sale of by-product	(1,755)	-	-	(1,755)	-
Transfers	(14,869)	(173)	-	(15,042)	-
Exploration Write offs & Amortisation	(7,899)	(494)	-	(8,392)	(1,302)
As at 30 September 2020	29,259	285	-	29,544	1,643

Revenues from the sale of hydrocarbons produced as a by-product of testing and evaluation activities have been offset against the costs of the intangible asset. These totalled £1,755,000 in the year (2019: £2,411,000).

Directors have assessed the fair value of the exploration & evaluation assets as at 30 September 2020. In March 2020 the first Horse Hill well was put into production and as a result the carrying value this well of £14.86 million was transferred from exploration & evaluation assets to oil & gas Properties.

An impairment review was carried out on the exploration & evaluation assets. As a result the remaining intangible assets associated with the first Horse Hill well and a sidetrack of the second Horse Hill well were fully impaired, the latter being impaired as it is currently planned to be used as a water injector for the first Horse Hill well and forms part of the net present value of the asset. During the period the Group also relinquished PEDL143, therefore the exploration and evaluation assets associated with this were also impaired.

As a result of the above there was an impairment charge of £7.89 million during the period.

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

At this point the Company is still assessing the potential of the remaining assets and will continue to develop and evaluate these assets in the coming year. Since their acquisition dates there has been no further material changes to the Licence areas. The directors therefore consider that no further impairment is required at 30 September 2020, other than detailed above.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

12. Oil & Gas Properties

Group	Oil & gas properties	Decommissioning Asset	Property, plant & equipment	Total	Total
	2020	2020	2020	2020	2019
	£'000	£'000	£'000	£'000	£'000
Cost					
As at 1 October	1,699	-	435	2,134	2,006
Transfers	14,869	173	-	15,042	
Reclassifications	-	-	-	-	-
Additions	-	20	1,746	1,766	128
As at 30 September	16,568	193	2,180	18,941	2,134
Depletion & impairment					
As at 1 October	(265)	-	(243)	(508)	(297)
Depletion charge	(743)	(23)	(84)	(850)	(210)
Impairment	(9,350)	-	-	(9,350)	-
As at 30 September	(10,358)	(23)	(328)	(10,709)	(507)
Carrying value					
As at 30 September	6,210	170	1,852	8,238	1,709

Impairment Review

The Directors have carried out an impairment review as at 30 September 2020. The Directors determined that the net present value of the HH-1 well was £4.78 million and therefore determined that HH-1 should be impaired by £9.35 million. The net present value utilised an internally generated depletion curve that was independently reviewed. Costs were based on current costs less any anticipated savings. A long-term Brent oil price of US\$64/bbl. was used, with a discount rate of 8.9% being the weighted average costs of capital of Horse Hill Developments Ltd the holding company of HH-1. Based on current production at Horndean no impairment was deemed necessary.

Company	Property, plant & equipment
	£'000
Cost	
As at 1 October	116
Reclassifications	
Additions	1,699
As at 30 September	1,815
Depletion & impairment	
As at 1 October	(8)
Depletion charge	-
As at 30 September	(34)
Carrying value	
As at 30 September	1,773

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

13. Investment in Subsidiaries

Company	2020 £'000	2019 £'000
Cost and net book amount		
At 1 October	26,206	12,785
Additions in the year	-	13,421
Impairment	(4,800)	-
At 30 September	21,406	26,206

The Directors carried out an impairment review as at the 30 September 2020 of the Company's Investment in its subsidiaries. As a result the Directors determined to impair its investment in Horse Hill Developments Ltd by £4.8 million.

The Company holds more than 50 per cent of the share capital of the following companies as at 30 September 2020:

Company	Country of Registration	Proportion held	Functional Currency	Nature of business
UKOG (GB) Limited	UK	100%	GB£	Oil production
UKOG Solent Limited	UK	100%	GB£	Oil exploration
UKOG Weald Limited	UK	100%	GB£	Oil exploration
UKOG (234) Limited	UK	100%	GB£	Oil exploration
Horse Hill Developments Ltd	UK	77.9%	GB£	Oil exploration
UKOG (137/246) Holdings Ltd	UK	100%	GB£	Holding Company
UKOG (Turkey) Ltd	UK	100%	GB£	Oil exploration
UK Oil & Gas Investments Limited	UK	100%	GB£	Dormant

All subsidiary undertakings are included in the consolidation. The proportion of the voting rights in the subsidiary undertaking held directly by the parent company do not differ from the proportion of the ordinary shares held. The following companies are taking an exception from the audit of the financial statements as per S479A of the Companies Act; UKOG (GB) Limited (04050227), UKOG Solent Limited (05000092), UKOG Weald Limited (04991234), UKOG (234) Ltd (07055133), UKOG (137/246) Holdings Ltd (09010542).

14. Investment in Associate

Group and Company	2020 £'000	2019 £'000
Carrying Value as at 1 October	-	5,003
Net equity additions at cost	-	3,371
Share of associates loss for the year	-	(419)
Transferred to investment in subsidiaries	-	(7,955)
Carrying Value as at 30 September	-	-

On 25 September 2019, the Company completed the acquisition of a further 22% interest in Horse Hill Developments Ltd for a total consideration of £6,600,000 (cash £425,000 and UKOG share issues £6,175,000) and net loan acquisitions of £3,229,000. This increase resulted in increasing the Company's holding to 77.9% and reclassified the investment as a subsidiary. See Note 5 – Business Combinations for further details

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

15. Inventory

Group	2020 £'000	2019 £'000
Inventories - Crude Oil	1	1
Total	1	1

16. Trade and Other Receivables

	Group		Company	
	2020 £'000	2019 £'000	2020 £'000	2019 £'000
Trade debtors	19	294	9	4
Other debtors	442	422	356	181
Loans to subsidiary companies	-	-	26,690	26,974
Prepayments and accrued income	281	463	182	125
Total	742	1,179	27,236	27,284

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

17. Cash and Cash Equivalents

	Group		Company	
	2020 £'000	2019 £'000	2020 £'000	2019 £'000
Cash at bank and in hand	1,634	6,892	1,346	6,196
Total	1,634	6,892	1,346	6,916

18. Trade and Other Payables

	Group		Company	
	2020 £'000	2019 £'000	2020 £'000	2019 £'000
Current trade and other payables				
Trade creditors	1,362	637	1,199	63
Other creditors	483	62	49	60
Accruals and deferred income	136	1,327	171	307
Deferred consideration payable	-	4,000	-	4,000
Total	1,981	6,026	1,419	4,430

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

19. Borrowings

	Group		Company	
	2020	2019	2020	2019
Borrowings	£'000	£'000	£'000	£'000
Loans payable to Non-Controlling Interests	3,084	2,973	-	-
Convertible Loan Notes	-	4,500	-	4,500
Total	3,084	7,473	-	4,500

At 30 September 2020, the outstanding loan balances owed to HHDL's shareholders were; Alba £2.60 million (2019: £2.43m), Doriemus £0.59 million (2019: £0.55) and UK Oil & Gas PLC £16.60 million (2019: £11.67m). The loans are payable on determination by the Board of HHDL. The loans currently attract an interest rate of 10% above Bank of England base Rate.

Convertible Loan Financing

In August 2019, the Company entered into a £5.5 million loan agreement (Loan) with Riverfort Global Opportunities PCC Limited and YA II PN Ltd (Investors). The £5.5 million was drawn down on 16 August 2019. The draw downs of the loans attracted total fees of £312,000 in accordance with the terms thereof.

The Loan attracted 0% interest and could at the sole discretion of the Investors, be converted at the sole discretion of the Investors into new ordinary shares in the Company. The conversion price is the lower of either a share price of 130% of the Company's average daily VWAP of the 5 days prior to the Loan drawdown (Fixed Conversion Price), or 90% of the Company's lowest daily VWAP during the 5 days prior to the conversion date (Variable Conversion Price). The Fixed Conversion Price is 1.3664 pence being the average daily VWAP for the 5 days preceding the date on which the full £5.5m was drawn down.

The Loan was convertible by the Investors in tranches of not less than £150,000, with a limit of £3 million per quarter, unless otherwise agreed by the Company. The Company could elect to repay in cash all or part of the Loan prior to term end.

The Loan also included a provision which prevents the Investors, or any of their affiliates, from holding any net short position with respect to UKOG's equity and, with full disclosure to UKOG, restricts the Investors' trades, on any given day, to no more than 15% of the number of UKOG shares traded that day.

At 30 September 2020 the Loan had been fully repaid. £2,675,000 was repaid through the issue of shares (621,406,132 during the period, at an average 0.43 pence per share) and £1,750,000 was paid in cash. Early repayment fees / commissions of £175,000 were also paid.

20. Provisions - Decommissioning

Group	2020	2019
	£'000	£'000
As at 1 October	427	1,341
Additions	616	59
Release	(11)	(936)
Unwind discount	-	(37)
As at 30 September	1,031	427

The amount provided at 30 September 2020 represents the Group's share of decommissioning liabilities in respect of the producing Horndean and Avington fields, and the Broadford Bridge and Horse Hill 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 & gas properties.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

20. Provisions- Decommissioning (continued)

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 & gas prices, which are inherently uncertain.

21. Share Capital

Ordinary Shares	Number of ordinary shares	Nominal Value £	Total Value £'000
Issued at 30 September 2018	5,566,654,230	0.0001	557
On 21 January 2019, for acquisition at 1.44p per share	17,989,326	0.0001	2
On 20 February 2019, for acquisition at 1.62p per share	129,629,630	0.0001	13
On 27 March 2019, placing for cash at 1.05p per share	333,333,330	0.0001	33
On 31 May 2019, for acquisition at 1.16p per share	25,951,557	0.0001	3
On 31 May 2019, for acquisition at 1.16p per share	9,731,834	0.0001	1
On 11 September 2019, for acquisition at 1.81p per share	275,988,960	0.0001	28
For conversion of loan notes (at prices from 0.98p to 1.07p)	98,288,303	0.0001	9
On 30 September 2019, placing to Employee Benefits Trust at par	201,000,000	0.0001	20
Issued at 30 September 2019	6,658,567,170	0.0001	666
On 2 December 2019, placing for cash at 0.85p per share	235,294,117	0.0001	24
On 02 January 2020, for acquisition at 0.91p per share	331,125,828	0.0001	33
On 01 April 2020, for acquisition at 0.39p per share	255,102,041	0.0001	25
On 30 April 2020, placing for cash at 0.20p per share	637,500,000	0.0001	64
On 3 June 2020, placing for cash at 0.20p per share	2,100,000,000	0.0001	210
On 24 June, warrant exercise at 0.20p per share	129,375,000	0.0001	13
On 08 July 2020, for acquisition at 0.20p per share	131,014,768	0.0001	13
For conversion of loan notes (at prices from 0.19p to 0.98p)	621,406,132	0.0001	62
Issued at 30 September 2020	11,099,385,057	0.0001	1,110

Deferred shares

The Company has in existence at 30 September 2020 and at 30 September 2019, 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 2020 is as follows:

	Number of shares	Nominal Value £	Total Value £'000
Ordinary shares	11,099,385,057	0.0001	1,110
Deferred shares	1,158,385,352,229	0.00001	11,584
			<u>12,694</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

22. Share Based Payments

No options were granted during the year (2019: 121.5 million).

As at 30 September 2020 the options in issue were:

Exercise price	Expiry date	Options in issue 30 September 2020
1.15p	24 May 2022	117,000,000
1.6p	12 April 2023	17,500,000
1.13p	25 September 2024	121,500,000
		256,000,000

No options were exercised, and no options were cancelled during the year (2019: 12,000,000 exercised). 45,000,000 options lapsed during the year (2019: 35,000,000).

Warrants

As of 30 September 2020, 40,931,372 warrants were in issue (2019: nil).

153,638,706 warrants were issued during the year (2019: 30,555,000). No warrants lapsed during the year (2019: nil). 129,375,000 warrants were exercised during the year (2019: 30,555,000 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. 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

On 30 September 2019, the Trustees subscribed for 201,000,000 new ordinary shares of 0.01p each in the Company, at par value per Ordinary Share at an aggregate cost to the Company of £20,100, such new Ordinary Shares representing 3.1% of the existing issued share capital of the Company.

The EBT did not subscribe to further shares during the year to 30 September 2020. The balance of new ordinary shares held by the EBT on 30 September 2020 was 250,000,000 (2019: 49,000,000). Awards of Ordinary Shares to beneficiaries by the EBT will be subject to appropriate vesting and other performance conditions, in line with normal market practice, which will be set by the Remuneration Committee.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

23. Share-Based Payments

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

	At 1 October 2019 No.	Issued during the year No.	lapsed / exercised during the year No.	At 30 September 2020 No.	Exercise price £	Date from which exercisable	Expiry date
Share options	Million	million	million	million			
A Howard	10			10	0.0115	25/05/2017	24/05/2022
A Howard	5			5	0.0113	27/09/2019	25/09/2024
K Morzaria	20			20	0.0115	25/05/2017	24/05/2022
K Morzaria	6.5			6.5	0.0113	27/09/2019	25/09/2024
S Sanderson	25		(25)	-	0.0040	13/04/2018	31/12/2019
S Sanderson	25			25	0.0115	25/05/2017	24/05/2022
S Sanderson	25			25	0.0113	27/09/2019	25/09/2024
N Mardon Taylor	4			4	0.0113	27/09/2019	25/09/2024
	120.5			115.5			
Consultants	62			62	0.0115	25/05/2017	24/05/2022
Consultants	10		(10)	-	0.0040	13/04/2018	31/12/2019
Consultants & employees	17.5		-	17.5	0.0160	13/04/2018	12/04/2023
Consultants & employees	81			81	0.0113	27/09/2019	25/09/2024
	291	-		276			

The share price range during the year was £0.0016 to £0.0115 (2019 - £0.0082 to £0.0208).

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

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

	Risk free rate	Share price volatility	Expected life	Share price at date of grant
13 April 2018 (0.4p)	0.8%	128.9%	1.72 years	£0.015
13 April 2018 (1.6p)	0.9%	128.9%	5 years	£0.015
27 September 2019 (1.13p)	0.4%	63.13%	5 years	£0.011

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 £0 (2019: £693,000) relating to equity-settled share-based payment transactions during the year, and £0 (2019: £472,000) was transferred via equity to retained earnings on the exercising or lapse of options during the year.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

24. Financial Instruments and Risk Analysis

Financial Assets by Category

The categories of financial asset, all included initially measured at fair value and subsequently carried at amortised cost in the balance sheet and the headings in which they are included are as follows:

Current assets – Group	2020	2019
	£'000	£'000
Inventory	1	1
Trade and other receivables	742	1,179
Cash and cash equivalents	1,634	6,892
	<u>2,377</u>	<u>8,072</u>

Financial Liabilities by Category

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

Current liabilities – Group	2020	2019
	£'000	£'000
Trade and other payables	1,981	6,025
Borrowings	3,084	7,473
	<u>5,065</u>	<u>13,498</u>

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

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

Interest Rate Sensitivity

The group is not substantially exposed to interest rate sensitivity, other than in relation to interest bearing bank accounts. The Group only has borrowings at a fixed coupon rate of 1%+BOE and therefore minimal interest rate risk, as this is deemed its only material exposure thereto.

Credit Risk Analysis

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

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

Liquidity Risk Analysis

The majority of the Group's liabilities are contractually due within one year. The loan note due from HHDL to Alba and Doriemus is payable on determination by the Board of HHDL.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

24. Financial Instruments and Risk Analysis (continued)

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.

Capital Management Policies

The group's capital management objectives are to:

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

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

Commodity Price Risk

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

Commodity Price Sensitivity

The table below summarises the impact on profit before tax for changes in commodity prices. The analysis is based on the assumption that the crude oil price moves 10% resulting in a change of US\$ 6.84/bbl (2019: US\$ 6.68/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	Effect on profit before
	tax for the year ended	tax for the year ended
	30 September 2020	30 September 2019
	Increase/(Decrease)	Increase/(Decrease)
	£'000	£'000
Increase US\$ 6.84 /bbl (2019: US\$ 6.68/bbl)	98	21
Decrease US\$ 6.84 /bbl (2019: US\$ 6.68/bbl)	(98)	(21)

Currency Risk

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

25. Commitments & Contingent Liabilities

As at 30 September 2020, 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 2020.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

26. Events after the Reporting Date

Apart from the those disclosed in the Strategic Report which forms part of these Annual Report and Accounts, there are no events to report after the reporting date.

27. Related Party Transactions

Transactions with Related Parties

In February 2019 the UK Oil & Gas PLC engaged Apex Completions, LLC (Apex) as a consultant to the Company. Allen Howard, UKOG's Non-Executive Chairman, is a Director of and a shareholder in Apex and, as a result, the Agreement is considered a related party transaction. Apex was engaged to help the Company further develop its understanding of the Portland and Kimmeridge reservoirs. The Agreement provides for Apex to periodically invoice the Company for work carried out based upon the time spent by its personnel. During the year Apex charged consultancy fees of £82,000 (2019 – £531,000).

During the year, consultancy fees of £nil (2019 - £200,000) were charged to the Company by Matt Cartwright Consulting Limited, a company of which Mr Matt Cartwright, UKOG's Commercial Director is the sole director. £nil was outstanding at the year-end (2019: £nil).

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

	2020	2019
	£'000	£'000
Short-term employee benefits	1046	1,126
Consultancy fees	-	200
Share-based payments	-	516
	1046	1,842

28. Ultimate Controlling Party

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

COMPANY INFORMATION

Company registration number	05299925
Registered office	The Broadgate Tower 8th Floor 20 Primrose Street London EC2A 2EW
Directors	Allen Howard Stephen Sanderson Kiran Morzaria Nicholas Mardon Taylor
Secretary	Kiran Morzaria
Auditors	PKF Littlejohn LLP Chartered Accountants Registered Auditor 15 Westferry Circus, Canary Wharf London, E14 4HD
Nominated Adviser	WH Ireland Limited 24 Martin Lane London, EC4R 0DR
Solicitors	Hill Dickinson The Broadgate Tower 8th Floor 20 Primrose Street London, EC2A 2EW
Registrars	Share Registrars Limited The Courtyard, 17 West Street Farnham, Surrey, GU9 7DR