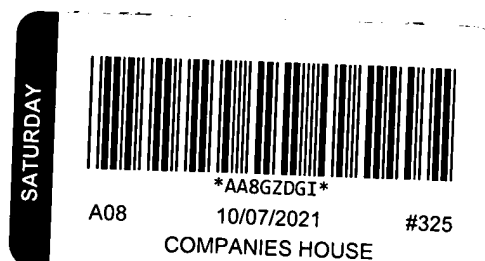


# i3 ENERGY

Annual Report and Financial Statements  
for the Year  
Ended 31 December 2020



**i3 Energy plc**  
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**For the Year Ended 31 December 2020**

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**i3 Energy plc**  
**Highlights and Outlook**  
**For the Year Ended 31 December 2020**

**HIGHLIGHTS AND OUTLOOK**

CANADA		UK AND CORPORATE	
Completed 3 September 2020	<b>GAIN ACQUISITION</b>	<b>SERENITY</b>	Counterparty negotiations ongoing
Completed 30 October 2020	<b>TOSCANA ACQUISITION</b>	<b>£11.7 MILLION</b>	Profit after tax
Total 2020 Revenue	<b>£13 MILLION</b>	<b>3.78 AND 3.46 PENCE</b>	Basic and diluted EPS
Production acquisitions	<b>9,000+ BOEPD</b>	<b>£29 MILLION</b>	Equity raised
2P reserve addition	<b>58 MMBOE</b>	<b>1H 2019 LOAN NOTES</b>	Aligned to i3's transformation
Leasehold position	<b>497k ACRES</b>	<b>TSX:ITE</b>	Secondary listing in Toronto
Net production wells	<b>467</b>	<b>2021 ONWARD</b>	Dividend distributions of up to 30% of FCF

**Highlights**

- Obtained a corporate foothold in Western Canadian Sedimentary Basin ("WCSB") production assets and management team through a debt acquisition of Toscana Energy Income Corporation ("Toscana" or "TEIC") and entry into an Option agreement to acquire all issued and outstanding shares of TEIC
- i3 Energy plc ("i3") paid CAD3.4 million (c.USD2.5 million), half in March 2020 and half at end-December, to acquire all of TEIC's outstanding debt and to assume the role of senior-secured lender to Toscana, which was in default under its CAD28 million (c.USD21 million) senior and subordinated credit facilities and was conducting a competitive strategic review process; i3 additionally issued 4,399,224 ordinary shares to TEIC shareholders at completion of the TEIC acquisition, concluded via a Plan of Arrangement in October
- i3 acquired TEIC's 2019 year-end 2P reserves of 4.65 MMboe (53% oil, 47% gas) with a reserve life index of 14.7 years, Q4 2019 production of 1,065 boepd at USD2,661/boepd and USD0.61/boe 2P
- Built on WCSB position with major acquisition of producing assets and infrastructure in Alberta and Saskatchewan from Gain Energy Ltd. ("Gain") contemporaneous with i3 entering an onward sale of Gain's Saskatchewan assets to Harvard Resources Inc ("Harvard"), leaving i3 with all of Gain's Alberta assets (the "Gain Assets") post completion in September 2020
- The Gain Assets were acquired for CAD35 million (USD26 million) and provided i3 with approximately 9,000 boepd of long-life, low-decline production and 54 MMboe 2P reserves at highly attractive acquisition metrics of 1.1x next twelve months ("NTM") net operating income ("NOI" = revenue less royalties, opex and transportation and processing), USD2,876/boepd, and USD0.48/boe 2P
- Suspended trading on AIM to separately conclude the reverse take-overs ("RTO") of the Gain Assets and Toscana. i3 entered into a Management Services Agreement with Toscana to manage i3's enlarged Canadian portfolio and staff base between the closing of the Gain Asset RTO and the conclusion of its Plan of Arrangement with TEIC
- Placed 581,147,255 new ordinary shares at 5 pence per share for total fundraising of £29 million to acquire the Gain Assets and announced it would issue 75,184,252 options at an exercise price of 5 pence (subject to vesting conditions as disclosed in the Company's August AIM Readmission document) to staff and board of the enlarged group following its Readmission to AIM and the completion of the Gain Asset and Toscana transactions
- Concluded the Gain Asset and Toscana transactions in September and October, respectively, with the Company being listed thereafter on both AIM and the TSX
- Completed key amendments to i3's May 2019 Loan Notes, replacing obligations to enter a development funding facility for the Company's UK assets with obligations to achieve certain production and funding levels during 2020 and 2021 (these replacement obligations have been fully satisfied through i3's funding and acquisition of the Gain Assets). In exchange for the amendment, all 55,981,044 warrants associated with the May 2019 Loan Notes had their exercise price reset to £0.0001 per share, and the loan note amendments also required the repricing of 16,157,612 i3 management and director options to £0.0001 per share.
- Progressed farm-down process for Serenity and Liberator in the UK North Sea and conducted a site survey over future appraisal and potential development well locations

**i3 Energy plc**  
**Highlights and Outlook**  
**For the Year Ended 31 December 2020**

**Post Period and Outlook**

The Company announced on 4 January 2021 that it had relinquished UK Continental Shelf (“UKCS”) licence P.1987 as it was at the end of its two-year term and i3 had determined the contingent resources associated with the licence were sub-commercial on a stand-alone basis. i3 may re-apply for the licence in the future if it is justified following the appraisal of the prospective Liberator West and/or Minos High areas, or after further drilling at its Serenity discovery. The relinquishment results in significant savings in licence fees and has no impact on the Company’s P.2358 licence which contains the vast majority of i3’s resource potential in the UK North Sea.

Also on 4 January, the Company announced that it had replaced one of its brokers, Mirabaud Securities, with Tennyson Securities, the new home of the oil and gas corporate finance, equity research and sales team that departed Mirabaud Securities.

On 10 January, the Company issued options over a total of 13,166,358 ordinary shares to key staff that joined its Canadian subsidiary, i3 Energy Canada Ltd., following the acquisition of Gain’s oil & gas assets. The options were issued in accordance with the rules of the Company’s Employee Share Option Plan at an exercise price of £0.061 per share, the closing price on 8 January 2021. One-third of the options vested immediately, with a further one-third vesting in July 2021 if production exits at or above 9,000 boepd, and 100 per cent will vest if there is an addition of 5,000 boepd or, alternatively, 25 MMboe 2P reserves. The options will otherwise fully vest on the third anniversary.

On 10 January, the Company also issued options over a total of 75,184,252 ordinary shares as described in the Gain-related Readmission document released on 11 August 2020. The options were issued in accordance with the rules of the Company’s Employee Share Option Plan at an exercise price of £0.05 per share. Options issued to employees of i3 Canada contain the same vesting conditions as the £0.061 options described in the paragraph above. Of the options issued to employees of i3 North Sea Limited, one-third of the options vested immediately, with a further one-third vesting at the spud of the next Serenity / Liberator appraisal well, and 100 per cent will vest upon a third-party reserve auditor attributing 25 MMbbls 2P post drilling of a Serenity / Liberator appraisal well. The options will otherwise fully vest on the third anniversary. Of the options issued to the executive and non-executive directors and one corporate employee, one-third of the options vested immediately, with a further one-third vesting upon the earlier of spud of the next Serenity or Liberator appraisal well; and July 2021 production exits being at or above 9,000 boepd, and 100% will vest upon the earlier of a third-party reserve auditor attributing 25 MMbbls 2P post drilling of a Serenity or Liberator appraisal well and the addition of 5,000 boepd or 25 MMboe 2P reserves. The options will otherwise fully vest on the third anniversary.

On 23 February, the Company announced that production between November 2020 and January 2021 had remained predictably stable at 9,150 boepd (41% liquids), with expected 2021 net operating income (“NOI” = revenue minus royalties, opex, transportation and processing) of CAD35 million (USD27.6 million). i3 stated on 5 May that Q1 2021 production had been 8,856 boepd (41% liquids), outperforming expectations, and updating its 2021 NOI forecast to CAD38 million (USD31 million).

Also on 23 February, i3 announced that in December 2020, it had completed an 80 hour flow-test on a horizontal Falher formation well located on its Noel acreage in Northeast British Columbia, Canada. The flow-test ran for a sustained period at 4,200 mcf/d (700 boepd) on a 1/4” choke. The Company has reiterated on 5 May that the Noel well is expected to be brought on production at approximately 500 boepd during the second quarter of 2021, following tie-in.

On 5 May, the Company announced that during February and early March, the following oil and propane hedges were executed:

Commodity	Period		bbl/d	Type	CAD/bbl
Crude	1/Apr/21	31/Dec/21	200	SWAP	\$73.70
Crude	1/Apr/21	31/Dec/21	200	SWAP	\$75.20
Crude	1/Mar/21	31/Dec/21	350	SWAP	\$64.50
Propane	1/Apr/21	31/Dec/21	200	SWAP	\$32.45

During March and April, a number of natural gas swaps were executed for the period between 1 June to 31 October 2021, totalling volumes of 21.4 MMscfd at an average price of CAD2.83/mcf. There were no commodity hedges in place in 2020.

In May the Company provided an update on its continued expansion into the prolific Clearwater play in Alberta, Canada. In February and March of 2021, i3 took advantage of winter access to re-enter three suspended gas wells to confirm the presence of oil within the 148 km<sup>2</sup> of historically gas-focused Clearwater acreage it had acquired as part of its 2020 purchase of Toscana. Encouragingly, oil samples were recovered from multiple intervals in two of the three wells, and i3 has commenced planning for an appraisal and development drilling programme to be implemented during the winter drill window in either Q4 2021 or Q1 2022. Further, the Company acquired a 15-year lease on 18 km<sup>2</sup> of land in the emerging Cadotte area through an Alberta Crown Land sale for under USD300k, and also entered a farm-in agreement that could earn it up to net 29 km<sup>2</sup> of land (for its 50% working interest) through the drilling of up to 9 wells at a net cost of USD7 million. Each well is expected to have a payout between one and two years and an initial production rate of approximately 150 bopd following start-up. The first farmout well is expected to be spud in Q2 2021.

**i3 Energy plc**  
**Highlights and Outlook**  
**For the Year Ended 31 December 2020**

On 17 May, i3 announced that it had successfully restructured legacy contracts and agreements for equipment, oil field services, and warrants with Baker Hughes, a GE Company, and GE Oil & Gas Limited (collectively referred to as “BHGE” hereafter). In summary, the remainder of a £5.8 million contract for subsea trees and wellheads was cancelled, 5,277,045 warrants had an exercise price reduction to £0.0001 per share (the “Warrant Shares”), and an outstanding contingent payment for £3 million in oil field services and equipment that becomes payable at such time as the Company receives consideration from any sale or farm-down of its Serenity or Liberator assets will be reduced by the exercise value of the Warrant Shares, the market value of the Warrant Shares from time to time, all dividends received by BHGE associated with the Warrant Shares, and certain payments to be made to BHGE across 2021 totalling £374,383. The purpose of this restructuring was to enable i3 to become a dividend payer, as certain conditions of the abovementioned contracts prevented it from reducing its share premium account – a required step in order for i3 to effect dividend distributions to its shareholders. Also announced on 17 May was i3’s confirmation that it had received consent from all other pertinent creditors to proceed with the proposed reduction of its share premium account, as described below.

On 18 May, i3 affirmed that its Board considers it highly desirable that the Company has the maximum flexibility to consider the payment of dividends and otherwise return value to shareholders. The Company is generally precluded, however, from the payment of any dividends or other distributions or the redemption or buy-back of its shares in the absence of sufficient distributable reserves. The Company’s share premium account currently stands at approximately £63 million. As at 28 February 2021, the Company had a retained earnings deficit of approximately £11 million. i3 proposes that its share premium account be cancelled. The proposed reduction of capital (the “Capital Reduction”) is intended to eliminate the retained earnings deficit and create distributable reserves equal to the balance. i3 has called a Notice of General Meeting of its shareholders and recommends that they vote in favour of the proposed Capital Reduction. If the proposed cancellation of the Company’s share premium account is approved by Shareholders at the General Meeting, it will be subject to the scrutiny of, and confirmation by, the UK High Court, which will take due account of the protection of creditors and, subject to that confirmation and registration by the Registrar of Companies in England and Wales of the order of the High Court, is expected to take effect on or around 1 July 2021. A Capital Reduction approved by i3’s shareholders and the High Court will allow it to pay the CAD2 million (£1.16 million) maiden dividend announced on 31 March, and to enable its intention to make regular, half-yearly dividend payments in the future.

On 31 May, the Company announced that it had exercised a Right of First Refusal (“ROFR”) to acquire the entire 49.5% operated interest held by Anegada Oil Corporation in its South Simonette property (“Anegada Interest”), taking i3 from a 49.5% non-operated interest to a 99% operated interest in the asset. Post acquisition and as Operator, i3 will bring two suspended wells back onto production in July at a total estimated cost of USD1.16 million (USD0.58 million for each of i3’s current and acquired Anegada Interest) by installing gas lift in one and repairing an electrical submersible pump in the other, resulting in an expected increase to i3’s corporate production of 720 boepd (41% oil, 4% NGLs, 55% gas) and NTM NOI of USD5.2 million; effectively increasing the Company’s exposure to oil by 20% and expected NTM NOI by over 16%. The combined rate associated with the Anegada Interest for the three wells is estimated to be 430 boepd. The 2P reserves and associated valuation estimate for the Anegada Interest are 4.9 mmboe and USD30.9 million, respectively, based on GLJ’s YE 2020 reserves evaluation, reflecting the high-impact potential oil resource identified in the Lower Montney formation at South Simonette. With all three wells on production, the forecasted next twelve months net operating income for the Anegada Interest is estimated at USD3.2 million. At a total cost to i3 of USD4.78 million for the acquisition and two well reactivation in July, the Company is acquiring the Anegada Interest and reinstating production for 1.49x NTM forecasted NOI of USD3.2 million, USD11,111/boepd, and USD0.95/boe (2P), materially below the averages since Q4 2020 for similar Western Canadian transactions of 4.53x NTM NOI, USD32,067/boepd, and USD5.61/boe. For i3’s already-owned 49.5% South Simonette interest (and incremental to i3’s current share of production from the existing producing well) the reactivation of the two wells in July is estimated to increase i3’s production by 290 boepd and NTM NOI by USD2.0 million. The Company deems this acquisition to be highly strategic to its Montney acreage where it now has a 99% operated interest at South Simonette, a 100% operated interest at North Simonette, and gross overriding royalty interests of 5% to 15% across a 41 km<sup>2</sup> area of the Middle Montney interval between its North and South Simonette acreage. If fully exploited, i3 believes that North and South Simonette could deliver peak net production of approximately 26,000 boepd. The Anegada interest has a very healthy LLR of 46.1.

Negotiations continue with multiple potential farm-in partners for the Serenity field appraisal drilling programme.

The Company’s focus for the remainder of 2021 will be on 4 key areas:

- 1 The growth of i3’s Canadian business by way of operational excellence, capital deployment and strategic upsizing in core areas;
- 2 The farmout of its UK licences to conduct further appraisal drilling at Serenity and/or Liberator;
- 3 Dividend distributions to its shareholders of up to 30% of free cash flow and to return value to stakeholders as it is generated; and
- 4 Conducting its operations safely and in an environmentally secure manner.

The Company continuously evaluates opportunities to strengthen its balance sheet whilst maintaining tight control of its costs and working capital position.

**i3 Energy plc**  
**Chairperson's and Chief Executive's Statement**  
**For the Year Ended 31 December 2020**

**CHAIRPERSON'S AND CHIEF EXECUTIVE'S STATEMENT**

**Overview of the year**

i3 is pleased with the results of 2020 given how the year began for the Company. Mixed drilling results from its 100% working interest three-well drilling programme in the UK North Sea at Liberator and Serenity, followed by a price war amongst commodity super-powers whilst the world entered the COVID pandemic, saw oil demand destruction that drove the West Texas Intermediate crude benchmark into negative territory for the first time in history. For a non-revenue generating company with a dwindling cash balance in a market largely closed to oil & gas financings, i3 started 2020 in uncomfortable territory. Recognising an opportunity to acquire production assets on very attractive metrics in the market depression that ensued, i3 employed creative acquisition, divestment, and funding strategies to both stabilise and grow the business.

i3 had an excellent drilling result at its Serenity prospect in H2 2019. The typical market reaction that would be expected from such a result was offset by the unexpectedly poor results we had at our wells in the much smaller Liberator Phase I area. Not having the financial capacity to conduct further drilling activity on a 100% basis, shortly into 2020 the Company began seeking farm-in partners. This process was all but halted as oil & gas companies shelved capital programs in light of unprecedented world events. A farm-down and resulting equity raise to shore up the Company's balance sheet and to fund its portion of a Serenity appraisal was unlikely to happen on a timeline that would see i3 survive. To offset the concentration risk of our UK appraisal portfolio – a risk exacerbated by a lack of capital markets appetite to fund appraisal-style portfolios during times of sector uncertainty – i3 urgently required a low-cost, low-decline production portfolio that would remain cash generative under distressed market conditions. It became critical that the Company acquire assets that would provide internal free cash flow to grow the company and provide near-term returns to our shareholders, while balancing the geological, project life cycle, project capital intensity and capital market risks it faced as a UK-focused entity with a pre-production asset portfolio.

After considering several global oil and gas basins and specific opportunities, we concluded that the Western Canadian Sedimentary Basin provided a time-limited opportunity to build a strong production portfolio on superior metrics. A short to medium term lack of infrastructure to transport Canadian oil and gas to international markets, in combination with depressed gas prices in North America due to the growth in gas supply from shale drilling, had resulted in many small, overleveraged producers reaching a financial breaking point. Many of these companies held quality production assets with solid growth potential, but burdensome debt and closed equity capital markets left them unable to fund maintenance opex or growth capex. Their assets were available on acquisition metrics we deemed to be highly attractive.

In March 2020, i3 announced that it had acquired all of the rights and interests in the senior-secured and subordinated debt of Toscana. As a result of accessing debt to acquire assets in a much stronger commodity environment, Toscana had struggled for some years and was in default under the terms of its debt facility agreements. i3 purchased Toscana's CAD28 million senior and junior debt facilities for a total of CAD3.4 million. At the same time, the Company announced its entry into an Option agreement with Toscana to acquire 100% of its issued share capital in exchange for 4,399,224 i3 ordinary shares. On 23 June 2020, i3 announced that it had exercised its Option with Toscana which, based on available published financial information at the time, constituted a reverse take-over under the AIM Rules for Companies. After later completing its transaction with Toscana at the end of October, i3's enlarged share capital was also listed on the TSX.

Toscana's strong management and operations teams and modest production and reserves base provided a foundation for i3's entry into Canada. As stated in March 2020, i3 intended to swiftly leverage the TEIC platform to execute an M&A driven growth strategy to build a large, low capital intensity, long-life production base in the WCSB. On 23 June 2020, with further detail on 6 July, i3 announced the planned acquisition of all the petroleum assets of Gain, a private Canadian company with assets in the WCSB for CAD80 million. Under the AIM Rules, the Gain transaction also constituted a reverse take-over, and at the Company's request its shares were suspended from trading on AIM until such time as i3 either published a "Readmission document" detailing the Gain transaction or provided confirmation that discussions had ceased. Across the following month, the executive tested institutional demand while considering the potential dilution of conducting a sizeable transaction against a poor sector backdrop and, partly to reduce dilution, on 7th August announced its intention to sell a portion of Gain's portfolio (those assets located in Saskatchewan), and complete a £29 million equity fundraise to fund the balance. The sale of ~1,050 boepd in Saskatchewan to Harvard for CAD45 million, representing approximately 7x NTM NOI, decreased the Company's equity requirement by almost 50% while seeing i3 retain the majority of the Gain portfolio representing 83% of the NTM NOI, 88% of the production, 79% of the PDP reserves, 87% of the 2P reserves, and 74% of the 2P NPV10. The Company is proud to have brought this complex transaction to completion, having acquired 54 MMboe 2P and over 9,000 boepd while raising equity capital equal to 5 times its market cap during a period of unrivalled difficulty for the oil sector.

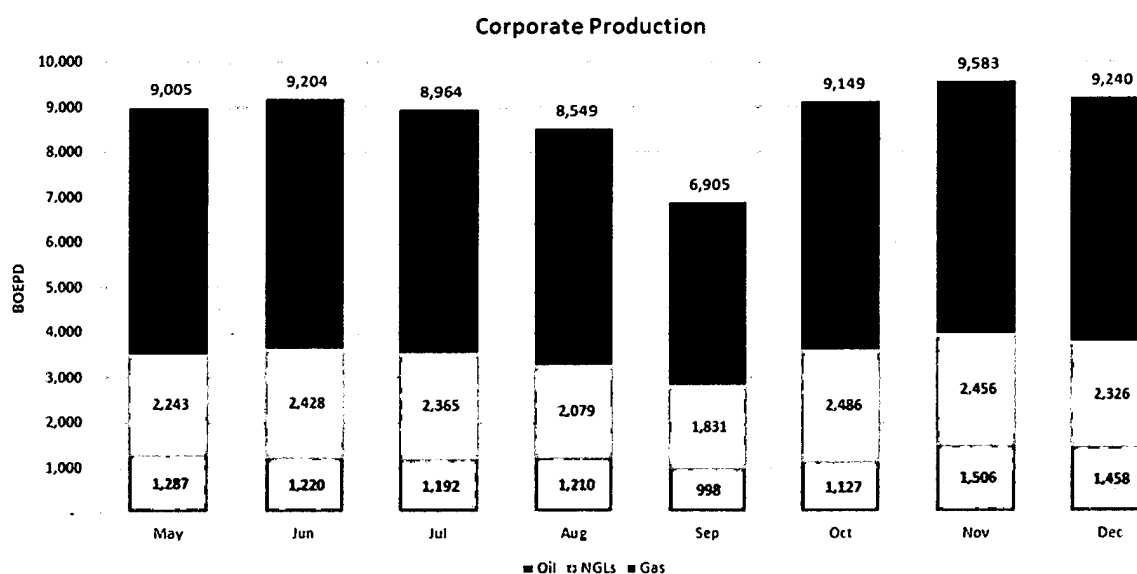
i3 published its Gain-related Readmission document on 11 August and completed the Gain acquisition and back-to-back sale of Saskatchewan assets to Harvard on 3 September. Concurrently, i3 entered into a Management Services Agreement with Toscana to manage i3's enlarged staff base in Canada and the Gain Assets until the Toscana-related AIM Readmission, Plan of Arrangement to acquire TEIC, and i3's TSX listing concluded during the course of September and October. During one of the worst periods in our sector's history, i3 transformed itself into a self-funding going concern through the Toscana and Gain acquisitions, adding approximately 9,000 boepd and 58 MMboe of 2P reserves to its portfolio at approximately 1.0 times 2021 net operating income.

**i3 Energy plc**  
**Chairperson's and Chief Executive's Statement**  
**For the Year Ended 31 December 2020**

As stated at the time of these transactions, the Board and Management are focused on delivering consistent value to shareholders. i3 committed to becoming a dividend payer that distributes up to 30% of its free cash flow, and to protecting this commitment through a conservative hedging program. Each of these is well underway with our maiden dividend expected to be paid in July 2021 and a substantial portion of i3's expected 2021 production hedged to manage commodity price risk. Residual free cash flow above the dividend will be redeployed to acquire additional production assets conditional on the associated acquisition metrics competing with the organic returns achievable through the development of our proven undeveloped (PUD) and 2P inventory. A proportion of all incremental production will continue to be hedged in order to secure future cash flow, and the Company will remain commercial in monetizing assets when third-party interest warrants consideration.

Reflecting on i3's pre-2020 portfolio then, our team remains confident in its belief that the Serenity discovery holds a company-making resource, and we expect that the next appraisal drilling there will prove this premise.

**Production Operations**



*Note: The above figures are unaudited and demonstrate volumes in the month produced. They are based on a combination of the lease operating statements of Gain Energy Ltd., Firenze Energy Ltd. (the operating subsidiary of Toscana Energy Income Corporation), and i3 Energy Canada Ltd., and are intended to represent the monthly production attributed to i3 Energy plc's Canadian operations from the effective dates of each transaction consummated between these entities.*

Following the closing of the Gain asset transaction on 4 September 2020 and the Toscana corporate transaction on 30 October 2020 our initial focus was the integration of these businesses in Canada and into i3 Energy plc. In parallel with that process, we immediately began a detailed review of the asset portfolio to identify production optimisation and cost reduction opportunities. We focussed on maintaining high uptime, minimising operating costs, optimising operated processing facilities and infrastructure and actively implementing high return workovers to offset natural production declines. These efforts managed to substantially increase aggregate average net production across H2 2020. The aggregate decline rate across the portfolio has been approximately half that predicted by the competent persons reports produced for the purposes of the 2020 reverse takeovers accompanying the acquisition of the assets, which is a testament to the quality of the assets in the portfolio and the dedication of our workforce. In parallel with operational activity, we also commenced a review of reservoir performance for the producing assets and identified a number of mature fields where redevelopment, particularly through the implementation of relatively low-cost secondary recovery projects could materially increase production and ultimate hydrocarbon recovery. These studies have advanced, and we hope to commence implementation of some of these projects in 2021, including tie-in of the Noel well in British Columbia which is expected to be onstream in the middle of 2021 at up to 500 boepd. Operating our assets in a safe and secure manner is fundamental to our business and during Q4 2020 we commenced the integration of the health and safety policies and procedures for the combined Gain and Toscana portfolio. There were thirteen routine regulatory government inspections during the fourth quarter all of which returned satisfactory results and all reportable HSE incidents were categorised as minor in nature apart from a release of produced water from the Y-Battery at Simonette, which was contained on the lease and subsequently remediated in Q1 2021.

**i3 Energy plc**  
**Chairperson's and Chief Executive's Statement**  
**For the Year Ended 31 December 2020**

**Financial discipline**

i3's 2020 equity fundraise to acquire its WCSB production portfolio didn't conclude until late Q3. Having entered 2020 with less than £1.2 million of net current assets demanded financial discipline, spend control and payables management across the year. Sizeable residual commitments from i3's 2019 drilling programme were renegotiated and extended (out to mid-2021 in some instances), with creditors being stern but creative in working with the Company. With the onset of appraisal delays at Serenity, i3's UK staff moved to half-time working while the farmout market softened, and corporate staff shifted focus towards securing a cash generative business in Canada.

i3 transformed itself into an oil and gas production company via complex asset and funding transactions concluded in late 2020. These were costly as the Company tried to balance frugality with timing and deal risk. Post completion, the simultaneous integration of numerous businesses – i3 UK, Toscana, and Gain's portfolio and staff – increased costs and expenses on a one-time basis.

With the portfolios and teams now integrated, we expect to bring future costs back in line with our peers in each jurisdiction.

**Board changes**

On 1 January 2020, David Knox, i3's Chairman since the Company's listing on AIM in 2017, took on significant additional responsibility as Chair of Snowy Hydro Limited, Australia's largest renewable energy provider. After nearly 3 years as the Chairperson of i3 Energy, he stepped down to ensure he had the necessary capacity to focus on this new role during a critical and trying time in Australia amidst unprecedented wildfires and environmental pressures.

Linda Beal became Interim Chairperson, with i3 expecting to conduct a formal search to replace David in due course.

On 8 December 2020, i3 appointed John Festival (a former Toscana board member) as a Non-executive Director of the Company.

**Governance**

The Board recognises its responsibility for the proper management of the Company and is committed to maintaining a high standard of corporate governance. The Directors also recognise the importance of sound corporate governance commensurate with the size and nature of the Company and the interests of its Shareholders. The Quoted Companies Alliance has published a set of corporate governance guidelines for AIM companies, which include a code of best practice comprising principles intended as a minimum standard, and recommendations for reporting corporate governance matters. The Directors intend to comply with the QCA Corporate Governance Guidelines for Smaller Quoted Companies so far as it is practicable having regard to the size and current stage of development of the Company. The Board currently comprises two executive Directors (being the Chief Executive Officer and the Chief Financial Officer) and four non-executive Directors (including the interim Chairperson).

The Board's decision-making process is not dominated by any one individual or group of individuals. The composition of the Board will be reviewed regularly and modified as appropriate in response to the Company's changing requirements. The Board has established an Audit Committee, Corporate Governance Committee, Health Safety Environment and Security Committee, Reserves Committee, and Remuneration Committee to ensure proper adherence to sound governance and decision making.

**Environmental Stewardship**

i3 is committed to conducting its operations to be in full compliance with both provincial and state environmental regulations and reporting obligations. In Q4 2020 we commenced the integration of the reporting systems and databases inherited from Toscana and with the Gain assets into i3's ESG management system and the development of a corporate ESG strategy. Central to that strategy is a commitment to achieve net zero carbon emissions by 2050. In December 2020 we commenced the development of a strategy to minimise fugitive GHG emissions from our production infrastructure. The first element of this was a plan to replace hi-bleed natural gas pneumatic controllers with low-bleed models across our portfolio in addition to conversions to instrument air; these projects commenced in December. These initiatives qualify for carbon credits which can be sold or used to offset future carbon tax obligations. The Company also takes very seriously its asset retirement obligations and is an active participant in the Government of Alberta's Site Rehabilitation Program ("SRP") and Saskatchewan's Accelerated Site Closure Program ("ASCP"). We received grants totalling CAD179,000 in Q4 2020 which contributed to our decommissioning operations in our Wapiti, Simonette, Marten Creek and Clair field locations.

**i3 Energy plc**  
**Chairperson's and Chief Executive's Statement**  
**For the Year Ended 31 December 2020**

**Looking ahead**


2020 was a transformational year for the Company, necessitated by a fight to survive and a desire to flourish. The hours required to accomplish this seemed innumerable for our staff, as a constant series of hurdles had to be overcome on a near-daily basis. We thank each of them for their part in the result – a company that is stable, cash flow generating, and excited about its future plans.

Moving forward then, i3 will continue to grow its Canadian production business through our stated strategy of being acquisitive when systemic or situational drivers offer good value and drilling our ever-growing inventory of high-quality proven undeveloped and 2P reserves when doing so offers better returns than the M&A market. In the UK, we will progress our appraisal and development plans at Serenity and Liberator as and when capital becomes available from potential partners. Beyond our current business, we see climate change as the most urgent matter of our time and deem it critical to act in a manner that exhibits this concern. Though we believe in this hydrocarbon-dependent world that oil and gas will remain a necessary part of the energy and industrial sector for decades yet, we understand that petroleum-based energy companies have a crucial role to play in the transition to net zero. As we enlarge the oil and gas business, we have worked so hard to reenergise across the last 18 months, we look forward to our balanced and intentional future transformation into an energy company that benefits society for generations to come.

As always, we extend gratitude to our capital providers for their ongoing support. We will fight hard to honour the trust you extended to us during such an uncertain time in our industry's history. As promised, i3 will continue to manage our Canadian and UK businesses in a manner that maximizes value creation and distributed returns.



Linda Beal  
Interim Non-Executive Chairperson  
31 May 2021



Majid Shafiq  
Chief Executive Officer  
31 May 2021

**i3 Energy plc  
Strategic Report**

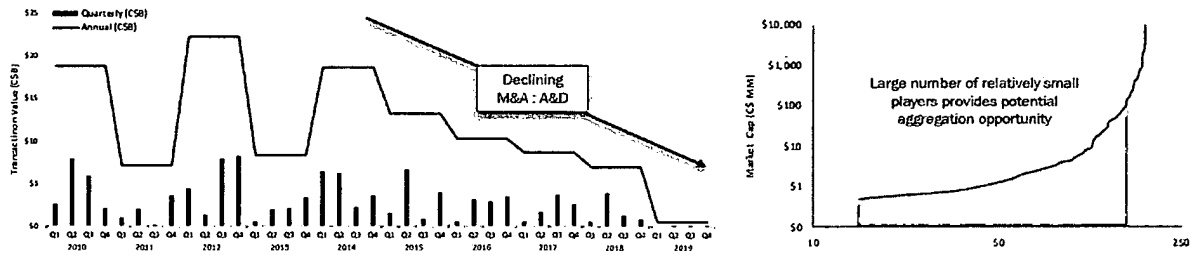
**For the Year Ended 31 December 2020**

**STRATEGY**

**Delivering on strategic objectives**

As demonstrated through the below graphics, the WCSB has been affected for some years by a dearth of M&A and A&D transactions, overleverage and a lack of support in Canadian equity and debt capital markets, the compounding effect of only having single-market access (other than domestic use, the United States has been the only buyer of Canadian oil and gas), and a US shale oil industry that has driven over-supply resulting in substantial pricing differentials between Canadian and US benchmark crude prices.

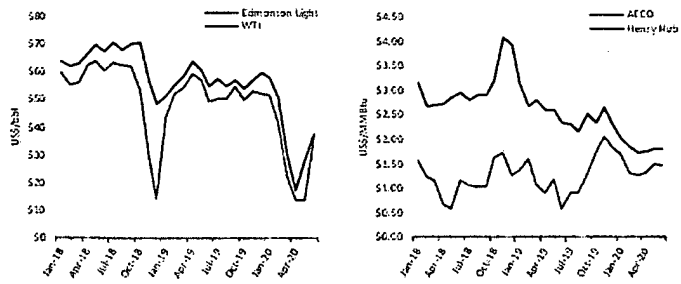
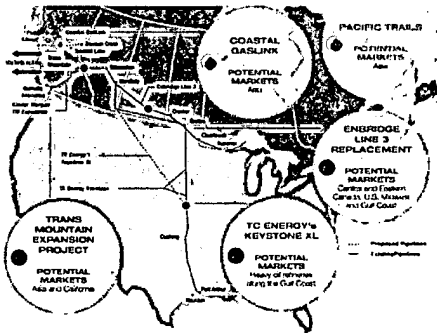
Additionally, a number of previously stalled, large-scale pipeline and infrastructure projects (Trans Mountain pipeline expansion, TC Energy's Keystone XL, Enbridge Line 3, Shell's \$40B LNG Canada project on the west coast) put uncertainty and downward pressure on the Canadian oil & gas sector, though any of these projects would have a material effect on export capacity for the WCSB and should assist to eventually normalize realized pricing to align with world markets. It was this backdrop of slumping deal activity and sector-wide depression in the Canadian upstream sector, overlapping with long-awaited systemic improvements to egress optionality that should result in stronger crude pricing, that offered i3 the opportunity to acquire highly valuable asset portfolios at well below the historical average, and this was only exacerbated by the unprecedented macro-economic events of 2020.



many small, overleveraged participants within a backdrop of slumping deal activity and sector-wide depression in Canadian equity capital markets providing excellent aggregation opportunities to well-capitalized energy optimists

+ long-awaited systemic improvements to egress optionality and resulting international market access will decrease Canadian commodity price differentials

= time-limited opportunity to build a material Canadian energy business on excellent metrics

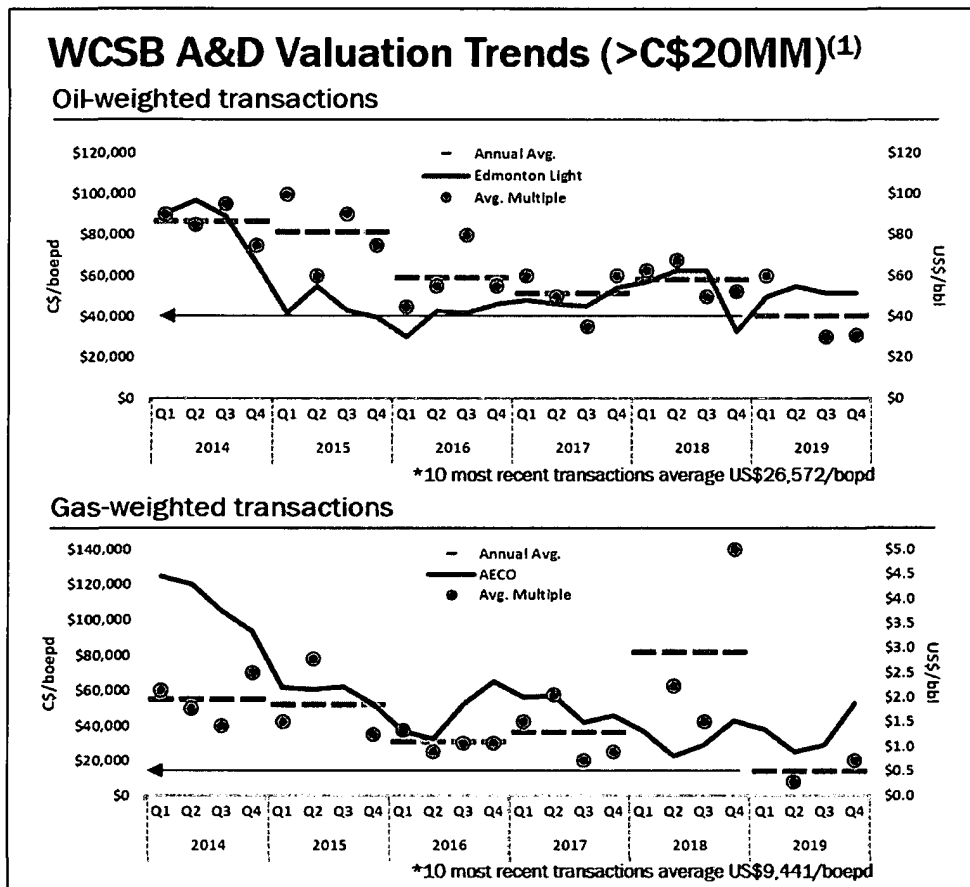


Canadian commodity differentials continue to tighten (improve)

Finally, COVID-19 and a stand-off between large-scale producers, Russia and Saudi Arabia, resulted in not previously seen oil price volatility between March and May 2020 (with WTI going negative). These drivers, collectively, put massive downward pressure on many small WCSB upstream producers, providing i3 the opportunity during 2020 to secure assets on very attractive acquisition metrics.

As is demonstrated in the figures below, compared to the 10 most recent A&D transactions above CAD20 million in the WCSB prior to negotiations commencing with Gain in May, i3 acquired the Gain Assets for approximately one sixth of the market average. This has been an excellent result for the Company.

**i3 Energy plc**  
**Strategic Report**  
**For the Year Ended 31 December 2020**



**DEAL CAPTURE AT A FRACTION OF HISTORICAL AVERAGE<sup>(2)</sup>**

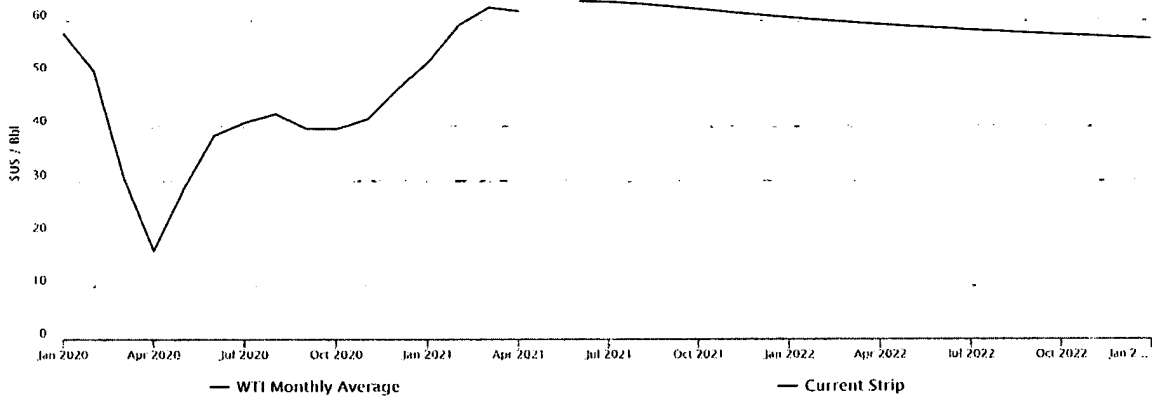
In light of recent world and sector events, i3 has captured the assets of Toscana and Gain on excellent metrics. The 10 most recent WCSB transactions up to April 2020 had average metrics of US\$26,572/boepd and US\$9,441/boepd for oil-weighted and gas-weighted deals, respectively, putting a total market valuation on i3's Toscana and Gain acquisitions at US\$175MM (US\$16,518/boepd) - 6.1x i3's acquisition price of US\$28.6MM (US\$2,702/boepd).

**Outlook**

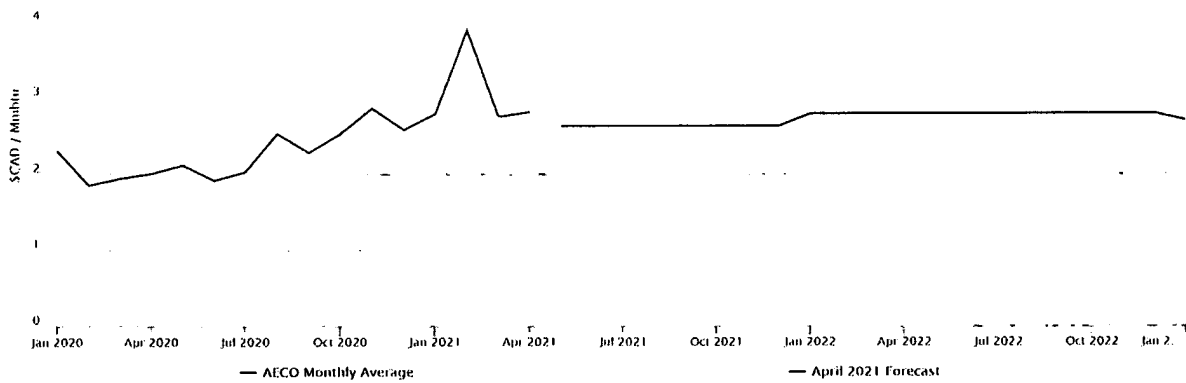
Since announcing its WCSB transactions in 2020, commodity prices have made a rapid recovery, with both oil and gas pricing now topping 2019 exit rates.

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**Historical WTI (Jan 2020 to date) + Forward Strip**

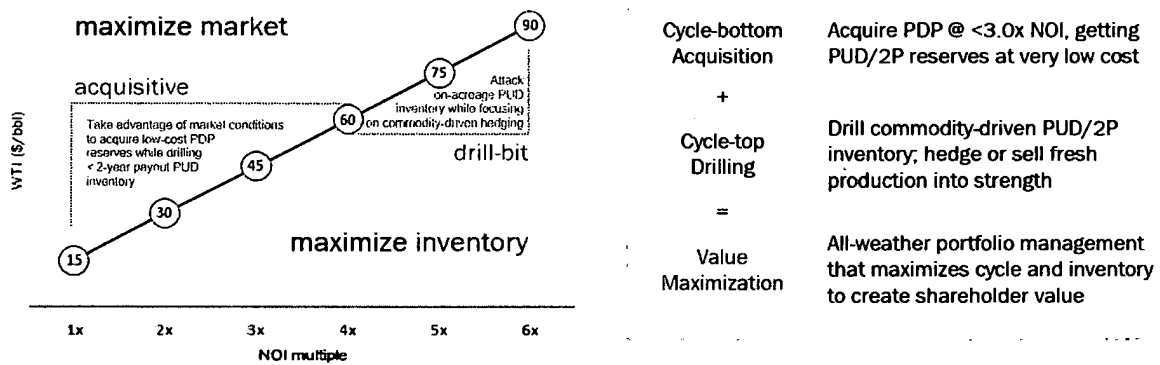
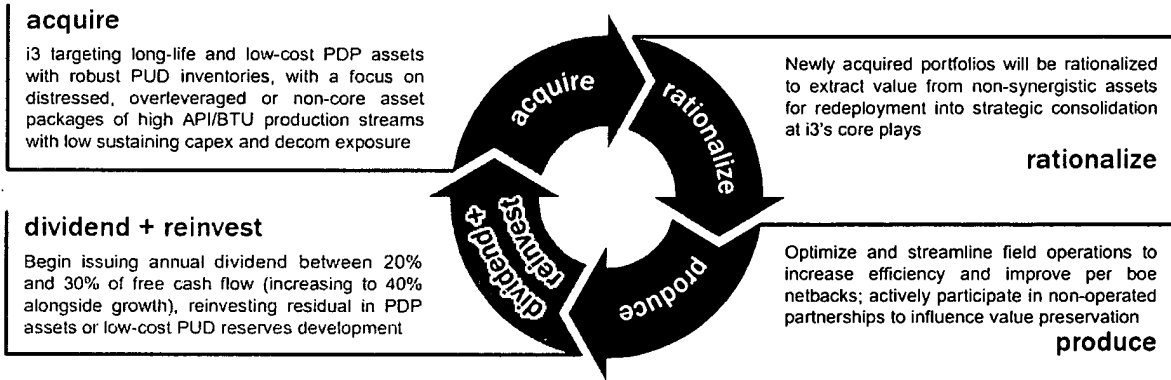


**Historical AECO (Jan 2020 to date) + Forward Strip**



As is expected in times of recovery, more capital becomes available as investors and corporates compete to catch the upswing, resulting in quickly escalating asset valuations. As was outlined in i3's corporate presentation of August 2020, the Company is intent on implementing a full cycle portfolio strategy that includes acquisition-based growth when commodities and companies are distressed but enables the organic development of already-captured proven undeveloped and 2P reserves when valuations are too high and markets too frothy.

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i3's deployment of the above strategy – balancing acquisition with development around USD60/bbl WTI – has been exemplified in 2021 as we've maintained financial discipline and not been tempted to conclude acquisitions at metrics we are uncomfortable with. In contrast to i3's 2020 acquisitions where we acquired portfolios at 1x 2021 net operating income, we have recently observed multiples over 4x being paid for WCSB assets. Though we continue to actively seek inorganic growth opportunities, as we have recently announced, current market conditions see us shifting to a dual strategy to include development and growth within our own portfolio. i3 expects to bring its Noel gas well in Northeast BC onto production in Q2, and we are increasing our footprint in the prolific Clearwater play in Alberta, expanding upon our already sizeable acreage position through a Crown Land Sale acquisition and material farm-in. In Q1, i3 successfully re-entered three of its Clearwater gas wells, discovering oil in multiple zones in two of those wells. These encouraging results have i3 planning a winter 2021/22 development programme at this acreage, and we are excited by the liquids-rich opportunity that this area and our Clearwater farm-in provide.

In the UK North Sea, 2020 presented a very difficult year within which to progress our 2019 Serenity oil discovery, as regional peers halted practically all non-essential capital expenditure, and appraisal-type assets became unattractive to potential investors. There were, however, a number of parties that stayed actively engaged in our farmout process, and as commodity prices have improved and market recovery has stabilized, the appraisal and eventual development of Serenity has once again become attractive. We remain in negotiations with several potential counterparties and expect a farmout of Serenity to come to a successful conclusion in due course.

**i3 Energy plc**  
**Principal Risks and Uncertainties**  
**For the Year Ended 31 December 2020**

**PRINCIPAL RISKS AND UNCERTAINTIES**

**Key Operating, Strategic, and Financial Risks**

The Group operates in the oil and gas industry in an environment subject to a range of inherent risks and uncertainties. Following the acquisition of producing assets in 2020 the Group's risks shifted toward a range of operational risks.

The Group completes a bottom-up process for identifying various operational, strategic, and financial risks. These risks are maintained on the corporate risk register which is continually monitored by management. Management then assesses the potential probability and impact of each risk, and those determined to be the most significant are classified as the Group's key risks. The current key risks and their associated mitigations are set out below.

Key Risk	Description	Mitigation	Change in the period
<b>Operational:</b>			
Sub-surface assessment and production, reserve, and resource estimation	Incorrect interpretation of subsurface data may lead to inaccurate reserves and production forecasts which may have an adverse impact on the financial performance of the Group. See Financial Statements Note 3 where the carrying value of intangible exploration and evaluation assets has been identified as a critical accounting judgment.	<p>The Group employs experienced sub-surface professionals with deep knowledge of different play types and contracts.</p> <p>The Group engages external consultants to complete independent reserves assessments and to compile Competent Persons Reports.</p> <p>The Group's appraisal programmes are designed to de-risk the overall field development. Well and seismic data is continually reviewed to best allocate capital and make drilling decisions.</p>	No change
Health, Safety, Security and Environment	Both onshore and offshore development carry the risk of major incident and harm to the Group's employees, contractors, and the environment.	<p>Integrated Management System (IMS) set up to ensure all regulatory and environmental and safety requirements are met, appropriate training is in place and compliance verified.</p> <p>IT security is ensured through an external service provider.</p>	Increase
Regulatory and compliance	The Group operates in multiple jurisdictions which have unique regulatory frameworks. Non-compliance with regulations could lead to loss of title to its assets, financial damage, or reputational damage.	<p>The Group manages its regulatory and compliance risks through the employment of sufficient competent personnel and through retaining suitably proficient advisors.</p> <p>The Group actively engages with its regulators.</p> <p>The Group continually monitors the status and commitments on its licences.</p>	Increase

**i3 Energy plc**  
**Principal Risks and Uncertainties**  
**For the Year Ended 31 December 2020**

<b>Key Risk</b>	<b>Description</b>	<b>Mitigation</b>	<b>Change in the period</b>
Canadian operations risk	There is a risk that financial and operational performance of the Group's Canadian operations are negatively impacted due to sub-optimal well performance, loss of access to third party gathering, processing, and pipeline infrastructure, weather patterns, and non-integration of assets acquired. Sub-optimal project management could lead to project delays or cost overruns. The ongoing COVID-19 pandemic could interrupt production or the availability of key staff.	The Group ensured that the acquisition of the Canadian production assets included the transfer of all staff from Gain and Toscana who the Group considered were required to effectively and safely operate those assets. This resulted in a seamless transfer of the business into the Group. The Group continually monitors its human resource base to ensure it has the experience and qualifications to manage its operations and appropriately mitigate associated operational and business risks. Technical, safety and business training is conducted to ensure skill sets are up to date and relevant to the Group's business. The Group has introduced flexible working practices into its Canadian and UK operations to manage periods of Covid related travel and working practice regulations. There is no requirement for overnight accommodation at any of the Group's field operations which minimises COVID related risks.	New risk
JV partner alignment	The Group has both operated and non-operated interests in Canada and is looking to farm down its interest in the UK. Where the Group operates as non-operating partner it may have limited control over the day-to-day management or operations of these assets. A third-party operator's mismanagement of an asset may result in significant delays or materially increased costs to the Group, or to liabilities over which the Group is joint and severally liable. There is no guarantee that a third-party operator's HSSE standards are aligned with the Group's.	The Group continually engages with its operating partners and closely monitors the operation of its assets.  The Group will complete thorough due diligence reviews before entering future farm down transactions to ensure that their strategic and operational objectives are aligned with those of the Group.	New risk

**i3 Energy plc**  
**Principal Risks and Uncertainties**  
**For the Year Ended 31 December 2020**

Key Risk	Description	Mitigation	Change in the period
<b>Strategic:</b>			
Climate change and energy transition	A global transition to alternative energy sources could have an adverse impact on commodity prices and/or the Group's access to and cost of capital.	The Group maintains compliance with current environmental regulations. It is committed to conducting its operations with net zero GHG emissions by 2050. Our strategy development includes consideration of these risks and potential mitigants. A strategy to participate in the energy transition is being developed in concert with discussions with the investment community to ensure our investment proposition remains relevant to the market.	Increase
Lack of growth	The Group is seeking opportunities to expand its portfolio of assets and to increase production rates from existing assets, but may not find such assets to be able to deliver value from such acquisitions.	<p>The Group engages with a range of advisors and active competitor monitoring to provide a range of opportunities for screening.</p> <p>The Group is led by experienced professionals spanning key disciplines to screen and fully assess growth opportunities.</p> <p>The Group has strong relationships within the sector, both in the UK and Canada.</p> <p>The Group continually reviews its portfolio of assets to identify internal growth opportunities.</p>	No change
Development of North Sea assets	Further appraisal drilling is required to develop the Serenity discovery, the results of which are uncertain until the work is completed. There is a high cost associated with further appraisal drilling and therefore it is contingent upon raising the necessary funds. There is uncertainty whether a subsequent development of the field would be commercial or whether this would require access to third-party production, processing and transportation facilities. See Financial Statements Note 3 where the carrying value of intangible exploration and evaluation assets has been identified as a critical accounting judgment.	<p>The Group is in active farm-down discussions in hopes of finding a partner so further appraisal work can proceed on terms financially acceptable to the Group.</p> <p>The Group is considering multiple field development approaches and will proceed in accordance with a strategy contingent on the results of the future appraisal drilling programme.</p>	No change

**i3 Energy plc**  
**Principal Risks and Uncertainties**  
**For the Year Ended 31 December 2020**

Key Risk	Description	Mitigation	Change in the period
<b>Financial:</b>			
Commodity price volatility	Oil and gas commodity prices can be volatile and are dependent on the level of supply and demand for oil and gas products at any given time. In the short-term, the Group's operating cash flows in the short-term and returns on capital projects in the long-term may be negatively impacted by depressed oil and gas prices. See Financial Statements Note 3 where the carrying value of intangible exploration and evaluation assets and oil and gas assets have been identified as critical accounting judgments.	<p>The Group plans based on a range of commodity prices, stress test scenarios and sensitivities when allocating capital.</p> <p>The Group closely monitors the profitability of its Canadian operations, including trends in both spot and forward commodity pricing.</p> <p>The Group continually reviews its hedging strategy and executed certain commodity hedging contracts in Q1 2021.</p>	Increase
Decommissioning costs	The Group forecasts significant decommissioning costs over the next 50 years. There is a risk that the cost estimates overrun either due to inaccurate estimation or unforeseen site contaminations. See Financial Statements Note 3 where decommissioning costs have been identified as a key source of estimation uncertainty.	<p>The Group uses commonly accepted cost estimation techniques based on rates published by the Alberta Energy Regulator ("AER").</p> <p>The Group employs experienced professionals to oversee the decommissioning cost estimates.</p>	New risk
Capital requirements and access to capital	The Group will require significant capital to grow its operations in Canada and to develop its oil and gas assets on the UKCS. The Group may be dependent or partially dependent on access to external capital to deliver this growth, and there is no guarantee the capital will be available at terms acceptable to the Group.	<p>The Group is publicly listed on both the TSX and the AIM which provides access to equity capital markets.</p> <p>The Group continually engages with shareholders and industry partners.</p> <p>The Group generates positive cash flows from its Canada operations which were acquired in 2020 which will decrease the Group's dependency on external financing.</p> <p>The Group continually monitors its capital allocation and will only pursue programs that are of appropriate size and risk relative to the Group's capital resources.</p>	No change

The risks set out above are not exhaustive and it is likely that the risks identified will evolve and that additional risks will arise in the future. Any of these risks could have a material adverse effect on the business.

**i3 Energy plc**  
**Section 172 Statement**  
**For the Year Ended 31 December 2020**

**SECTION 172 STATEMENT**

Section 172 (1) of the Companies Act obliges the Directors to promote the success of the Company for the benefit of the Company's members as a whole. This section specifies that the Directors must act in good faith when promoting the success of the Company and in doing so have regard (amongst other things) to:

- a. the likely consequences of any decision in the long term,
- b. the interests of the Company's employees,
- c. the need to foster the Company's business relationship with suppliers, customers and others,
- d. the impact of the Company's operations on the community and environment,
- e. the desirability of the Company maintaining a reputation for high standards of business conduct, and
- f. the need to act fairly as between members of the Company.

<p>a. the likely consequences of any decision in the long term,</p>	<p>The Board of Directors meets regularly and uses these meetings to consider the likely consequences of any decisions in the long term. This includes its collective responsibility for formulating the Company's strategy, which is to i) acquire undervalued developed producing fields and operate them efficiently, safely and in full regulatory compliance, and ii) ultimately deliver hydrocarbon projects into production by graduating assets through the industry life cycle of exploration, appraisal, development, production and optimization. Some key decisions were taken by the Board since the beginning of 2020 which were aimed to deliver on this strategy. These included:</p> <ul style="list-style-type: none"> <li>• Raising £29 million of equity and in order to complete the Gain and Toscana acquisitions;</li> <li>• Acquiring a sizeable developed producing portfolio in Canada which the Company expects will fund a regular dividend and provide capital for additional organic or inorganic expansion;</li> <li>• Completing a secondary listing on the Toronto Stock Exchange which is expected to provide increased access to the global capital markets;</li> <li>• Continuing the search for farminees on the Serenity oil discovery.</li> </ul> <p>The decisions outlined above considered the interests of the Company's stakeholders, including revenue and cash flow generation which can be returned to shareholders through dividends, improved funding position to settle obligations to suppliers, and longer-term stability for i3's employees.</p> <p>The Board places equal importance on all shareholders and strives for transparent and effective external communications, within the regulatory confines of an AIM-listed company. The primary communication tool for regulatory matters and matters of material substance is through the Regulatory News Service, ("RNS"). The Company's website is also updated regularly and provides further details on the business as well as links to helpful content such as our latest investor presentations. We also hold regular investor events which are open to all shareholders and provide an environment where shareholders can interact with the Board and management, ask questions and raise their concerns.</p>
<p>b. the interests of the Company's employees,</p>	<p>Our employees are one of the primary assets of our business and will be critical to the future success of the Company. Our employee headcount expanded significantly following the Gain and Toscana acquisitions and the employees that joined the Group's wholly owned subsidiary, i3 Energy Canada Limited. First and foremost, the Directors strive to ensure a safe working environment for all its staff and contractors, and we are proud of our safety achievements in 2020. We also seek to reward employees with remuneration packages which align the interests of the Company and its shareholders with those of its employees. We believe we have achieved this through the award of share options which contain vesting conditions aligned with the strategic objectives of the Group. Employees are also provided with challenging work and external training opportunities to ensure their continual development. The Board engages with the Group's employees continually throughout the year, both formally at Board meetings, and also informally through interaction and operational, financial and M&amp;A discussions with certain employees.</p>

**i3 Energy plc**  
**Section 172 Statement**  
**For the Year Ended 31 December 2020**

<p>c. the need to foster the Company's business relationship with suppliers, customers and others,</p>	<p>The Company fosters its business relationships with suppliers, customers, contractors, and its various joint venture business partners in Canada. The Group engages frequently with key suppliers through a regular review of vendor due diligence, creating efficiencies within the supply chain, and considering their interests in our operations. Examples in 2020 include continued discussion with key vendors on balances due from the 2019 drilling campaign and engaging with vendors regarding liabilities assumed through the Toscana acquisition. The Group also works extensively with joint interest partners, in particular through our Canadian operations where we operate primarily through joint interests on our producing assets, and communicates frequently with these partners. The Executive Directors engage directly with joint venture partners, including potential farminees on the UK assets.</p>
<p>d. the impact of the Company's operations on the community and environment,</p>	<p>The Company considers the impact of its operations on the community and the environment. The Group maintains offices in both Aberdeen and Calgary through which we integrate with the local communities and engage directly with local municipalities on various matters. The Company regularly engages with the AER following our introduction to Canadian operations and have been recognised as an upstanding operator in the region. The Company closely monitors its decommissioning obligations in Canada which it intends to responsibly decommission in accordance with local regulations and in collaboration with the AER. This was demonstrated by incurring decommissioning spend and assistance under the AER SRP program in the period following the Gain acquisition on 3 September and the Toscana acquisition on 30 October.</p>
<p>e. the desirability of the Company maintaining a reputation for high standards of business conduct, and</p>	<p>The Board has an obligation to ensure the Company acts responsibly and maintains a reputation for high standards of business conduct. There is regular communication between the Directors, Executive Directors, and key members of the management team to ensure this culture is promoted and maintained throughout the organisation. The Company operates with open, transparent and two-way communication and consistent access to the Directors.</p>
<p>f. the need to act fairly as between members of the Company.</p>	<p>The Company recognises its broad range of stakeholders and the need to operate in a manner that is fair to all these stakeholders. The Board meets regularly and considers the interests of the various stakeholders in the decisions they make. This was demonstrated through the Company's approach to the Gain and Toscana acquisitions which were structured to create value for shareholders, but also to ensure continuity of employees from both Gain and Toscana and integrate them into the i3 Group in a way that represented the interests of these employees.</p>

The Directors believe they have acted in the way they consider most likely to promote the success of the Company for the benefit of its members as a whole, as required by Section 172 (1) of the Companies Act 2006.

**i3 Energy plc**  
**Financial Review**  
**For the Year Ended 31 December 2020**

## **FINANCIAL REVIEW**

### **Overview**

The Group entered 2020 following mixed results from its 2019 drilling and the resulting necessity to diversify its asset portfolio in order to spread and mitigate risk.

In March, i3 announced that it had acquired the rights and interest in CAD28 million the senior-secured and the subordinated debt of Toscana Energy Income Corporation (“Toscana”) for CAD3.4 million, along with an option to exchange 4,399,224 i3 ordinary shares for 100% of the issued share capital of Toscana, a TSX-listed oil and gas corporation with assets and operations in the WCSB.

In June, i3 announced the planned acquisition of 100% of the petroleum and infrastructure assets from Gain Energy Ltd. (“Gain”) for gross consideration of CAD80 million. On 4 August 2020, i3 Canada entered into a binding purchase and sale agreement to sell Gain’s petroleum and infrastructure assets in Saskatchewan, to Harvard Resources Inc. (“Harvard”) for CAD45 million, conditional only on the completion of the Gain acquisition. Following the purchase from Gain and sale to Harvard, i3 retained the assets solely in Alberta for net consideration of CAD35 million before closing adjustments.

In August, i3 completed a £29 million equity fundraising which allowed the Group to close the Gain acquisition on 3 September 2020 and the Toscana acquisition on 30 October 2020. Since completing these acquisitions the focus has been on integrating the assets, management teams, and working toward the Group’s maiden dividend in 2021.

### **Fundraising**

In August 2020 the Group issued 581,147,255 new Ordinary Shares at 5 pence per Ordinary share, for gross proceeds of £29.0 million (£27.3 million net of issuance costs). The proceeds were primarily used to fund the Gain acquisition, and also for finance and legal costs, general corporate purposes, and for maintenance capex in its Canadian portfolio.

### **Acquisitions**

On 3 September 2020 the Group completed the acquisition of 100% of the petroleum and infrastructure assets from Gain in Alberta, which consist of 242 Gain-operated wells at an average working interest of 78%, 1,044 non-operated wells at an average working interest of 14%, and associated infrastructure. The net consideration of £17.4 million, following closing adjustments (CAD35 million prior to adjustments) resulted in the recognition of PP&E of £93.0 million, inventory of £0.2 million, a decommissioning provision of £50.9 million, a deferred tax liability of £5.7 million, and a resulting gain on bargain purchase of £19.2 million.

On 30 October 2020 the Group completed the acquisition of 100% of the issued and outstanding common shares of Toscana, a TSX listed oil and gas company with operations in the WCSB. The net consideration including the repurchase of Toscana debt for \$3.4m and the issuance of 4,399,215 ordinary shares of i3. The net consideration of £2.2 million resulting in the recognition of PP&E of £21.8 million, a decommissioning provision of £18.2 million, a deferred tax asset of £6.1 million, net working capital of negative £1.5 million, and a resulting gain on bargain purchase of £6.0 million.

The acquisitions allowed the Group to diversify its asset portfolio, and to add production to its asset portfolio, and to provide internal free cash flow to grow the Group and to provide a near-term return to its Shareholders. The Toscana deal also allowed i3 to enlist its share capital on the TSX under the symbol ITE.

Total acquisition costs of £1.5 million relating to the two acquisitions have been recognised in the statement of comprehensive income. Further details are provided in Note 4 of the financial statements.

### **Production and revenue**

Since i3’s purchase of the Gain Assets on 3 September 2020 and the subsequent acquisition of Toscana on 30 October 2020, total production has averaged 8,732 boepd to year-end. Production was comprised of 59% natural gas and 41% oil and natural gas liquids. Total production for the month of December 2020, averaged 9,240 boepd and was comprised of 59% natural gas and 41% oil and natural gas liquids.

Total revenue from 3 September 2020 to 31 December 2020 was £13.0 million. Revenue over this period was comprised of proceeds from the sale of oil and gas of £13.2 million, less associated royalties of £0.8 million, plus processing income of £0.6 million. Revenue from oil and gas sales, not including royalties, for the above period was £12.4 million, of which, 55% was from the sale of oil and natural gas liquids and 45% was from the sale of natural gas. Crown, freehold, and gross overriding royalties of £0.8 million, as a percentage of oil and gas sales, was 6%. Processing income of £0.6 million, over the above period resulted from fees charged to third party users of various facilities which are partially or wholly owned by the Group.

### **Expenses**

Production costs from 3 September 2020 to 31 December 2020 associated with the extraction and processing of the Group’s Canadian oil and gas assets were £8.1 million, or £7.51/boe. These costs are primarily comprised of field labour and general field maintenance, land retention and taxes, well repairs and workovers, processing and product transportation. Administrative expenses increased from £5.3 million to £5.8 million, largely due to the increased overhead resulting from the expansion of the Group’s Canadian business.

**i3 Energy plc**  
**Financial Review**  
**For the Year Ended 31 December 2020**

**Finance costs**

The Group incurred finance costs of £7.4 million (2019 - £5.5 million). The increase is largely attributable to the interest expense on the H1-2019 loan note facility, which was issued in mid-2019 and therefore outstanding for its first full fiscal year in 2020. There were also increases due to the re-pricing of the loan note warrants, the unwinding of the decommissioning provisions assumed in the year, and bank charges and other interest resulting from the Group's 2020 Canadian acquisitions.

**Profit, EPS, EBITDA, Adjusted EBITDA**

The Group made a profit of £11.7 million (2019 - loss of £10.9 million), equating to basic and diluted earnings per share of 3.78 pence and 3.46 pence per share, respectively (2019 – basic and diluted loss of 13 pence per share). EBITDA was £22.8 million and adjusted EBITDA was a loss of £0.8 million (2019 – EBITDA and adjusted EBITDA loss of £5.0 million).

**E&E and PP&E**

The Group had PP&E assets of £108.5 million (2019 - £0.0 million) and intangible E&E assets of £48.8 million (2019 – £46.5 million) as at 31 December 2020. The increase in PP&E was largely due to the Gain and Toscana acquisitions, through which £114.8 million was recognised, offset by depletion and change in decommissioning provision estimates in the period. Total PP&E additions of £0.7 million was comprised of work associated with the Group's Canadian oil and gas assets. During the period from 3 September 2020 to 31 December 2020, management initiated various operated well and facility optimization programs, in addition to participating in various non-operated projects.

The increase in intangible E&E assets was due to £2.3 million of capitalised costs during the period.

**Key Performance Indicators (“KPIs”)**

Following the completion of the transactions in October 2020, i3 spent the fourth quarter integrating its newly acquired Canadian production assets, operations and human resources. This also included incorporation and reconciliation of post completion financial and lease operating data for the aggregate asset portfolio. The consolidation of financial and operating data allowed i3 to commence development of optimised KPIs focussed on shareholder return, leverage ratio, operating costs optimisation, health and safety and ESG targets. i3 will commence reporting against these in 2021.

**Going concern**

The Directors have considered the going concern of the Group and are satisfied that the Group has sufficient resources to operate and to meet their commitments as they come due over the going concern period. The Group continues to closely monitor its cash balances which stood at £6.2 million as at 31 December 2020. Further details are provided in the Directors report.

**Approval of the Strategic Report**

This report was approved by the Board of Directors on 31 May 2021 and signed on its behalf by:



Linda Beal  
Interim Non-Executive Chairperson

31 May 2021

**i3 Energy plc**  
**Board of Directors**  
**For the Year Ended 31 December 2020**

**BOARD OF DIRECTORS**

The Directors of the Company who were in office during the year and up to the date of signing the financial statements were:

**Linda Beal**

*Non-Executive Chairperson (Appointed Interim Chairperson of the Board on 7 February 2020)*

Ms. Beal has over 32 years' experience advising international E&P clients and since 2016 has been a board member of various companies. As a director of other small cap natural resources businesses, she brings corporate governance and financial expertise and experience as Audit & Risk Committee Chair. Ms. Beal joined Grant Thornton in 2013 as a Tax Partner and was Global Leader for Energy and Natural Resources, mandated to build its global energy and natural resources capability. Previously, she spent 30 years at PwC and its legacy firm Price Waterhouse in Audit and Tax, 16 of them as a Partner. Launching PwC's Natural Resources Independents business in the mid-2000s, she focused on advising international E&P clients across the AIM, FTSE350, overseas listed and private sectors.

Ms. Beal graduated in 1982 from the University of Nottingham with a BSc (Hons) in Mathematics, thereafter, qualifying at Price Waterhouse as a Chartered Accountant in 1985.

**David Knox**

*Chairperson of the Board (Resigned 7 February 2020)*

Mr. Knox held the position of Non-Executive Chairperson of the board until 7th February 2020 at which time he resigned to focus on his role as Chair of Snowy Hydro Limited, Australia's largest renewable energy provider and an iconic Australian company.

Mr. Knox, BSc (Hons) Mech Eng, MBA, FIEAust, FTSE, GAICD, served as the Chief Executive Officer and Managing Director of Santos Limited from 2008 to 2015, after joining the company in 2007 as the Executive Vice President of Growth Businesses. Mr. Knox has global experience in the Petroleum Industry. Prior to Santos, Mr. Knox served as the Managing Director of BP Exploration and Production in Australasia, having previously held management and engineering roles at BP, ARCO and Shell across United Kingdom, Pakistan, United States, the Netherlands and Norway. He served as Director of Santos, the Santos Group Companies, and Santos Finance until December 2015. He was also Chair of the Australian Petroleum Production and Exploration Association (APPEA) 2011 to 2013. Mr. Knox was MD and CEO of Australian Naval Infrastructure (ANI). Originally from Edinburgh, Scotland. Mr. Knox holds a first-class honours degree in Mechanical Engineering from Edinburgh University and a Masters of Business Administration from the University of Strathclyde. Mr. Knox has also been a director on the board of the Botanic Gardens and State Herbarium in South Australia, a member of the Commonwealth Science Council and deputy chair of the Economic Development Board of South Australia. He is a Fellow of the Australian Institute of Mechanical Engineering and also a Fellow of the Australian Academy of Sciences ATSE and a graduate of the Institute of Company Directors. He is currently a director of the Commonwealth Science and Industry Research Organisation (CSIRO), the Adelaide Festival and chair of The Australasian Centre for Social Innovation (TACSI). Mr. Knox has also been a director of Redflow Limited since March 2017, and a council member of Royal Institution Australia (RIAUS).

**Majid Shafiq**

*Chief Executive Officer*

Mr. Shafiq has over thirty-two years of technical and investment banking experience focused on the global E&P sector. Prior to founding Argentil Capital Partners (UK) Limited as CEO in 2015, Majid spent circa fifteen years in energy investment banking advising on asset level acquisitions and divestments, corporate M&A and equity financing for the private and public, small to mid-cap oil and gas sector. During that time he worked for Waterous and Co, Tristone Capital Ltd and FirstEnergy Capital LLP as Managing Director, Corporate Finance. Prior to his investment banking career, he worked for Mobil Oil Corporation for 13 years in various petroleum engineering and commercial roles in the UK and the Netherlands. Mr. Shafiq holds a Bachelors degree in Nuclear Engineering from Manchester University, a Masters degree in Petroleum Engineering from Heriot-Watt University and an MBA from London Business School.

Mr. Shafiq served as a Non-executive Director of the Company until 8 October 2018 at which time he succeeded Mr. Carson as Chief Executive Officer of the Company.

**Graham Heath**

*Chief Financial Officer*

Prior to co-founding i3 in late 2014, Mr. Heath, BComm, served as VP Corporate Development and later as Interim CFO at Iona Energy from December 2010 alongside Mr. Carson. During his time at Iona, Mr. Heath worked with the senior management team to build the company from infancy to 40MMboe of 2P reserves and production above 6,000 boepd, listing the company on the Toronto Venture Exchange, and structuring equity, debt, and derivative financings in excess of USD670 million. As VP Corporate Development he was a proactive engager of all external stakeholders and as Interim CFO led a finance and administration team that expanded internal financial controls while improving quarter-on-quarter quality and delivery of financial reporting. Before joining Iona, Mr. Heath's 16-year career focused on energy-related tech start-ups and consulting within Alberta's Oil and Gas Industry. Between 1998 and 2010, Mr Heath consulted to Colt Engineering, PanCanadian Petroleum, EnCana Corporation and Cenovus Energy. From 2002 to 2006, Mr. Heath was Cofounder and VP of Strategic Development for The CO<sub>2</sub> Hub – a marketplace created to facilitate the sale and purchase

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of carbon dioxide and its related purification, compression, storage, and transportation services – designed to foster the aggregation of CO<sub>2</sub> supply and demand for its use in enhanced oil recovery. Mr Heath holds a Bachelor of Commerce from the University of Calgary.

**Neill Carson**

***Non-Executive Director***

Mr. Carson, Bsc (Hons) Combined Geology & Physics, MSC Geophysics, has 34 years of management and international project experience in the oil & gas industry. On completion of his Bachelors (with First Class Honours) and Master degrees in the geosciences from Ulster University and Birmingham University respectively, he joined Amoco in 1981. During his 14 years with Amoco he was responsible for numerous exploration and production projects within the UKCS. Mr. Carson's international career widened through exploration management positions for BP Amoco in the Netherlands, Bolivia, and Pakistan. As Performance Unit Leader for BP Pakistan, Mr. Carson was responsible for the delivery and growth of approximately 12,000 boepd and capital budgets in excess of USD50m. Through his career with BP Amoco, Mr. Carson executed growth plans through successful oil and gas discoveries, and the development and management of commercial portfolios. He contributed as a select member of a targeted team to BP's world-wide new venture screening initiative in 2003. In early 2004, Mr Carson co-founded Ithaca Energy Inc. ("Ithaca") where he served as its President and a director from April 2004 and acted as Chief Operating Officer until late 2007. While at Ithaca, Mr. Carson was responsible for asset acquisitions, all aspects of operations and safety, general corporate strategy, and the drilling of four successful oil wells. Across his 4 years with Ithaca, the portfolio grew to 39MMboe of 2P reserves and was on plan to deliver 8,000 boepd of production. Mr. Carson founded Iona Energy Inc. ("Iona") in late 2007 where he served as Chief Executive Officer until his departure in mid 2014 to form i3. Responsible for all aspects of corporate strategy and portfolio development, he grew Iona to 40MMboe of 2P reserves and saw peak production of 6,700 boepd.

Mr. Carson served as Chief Executive Officer of the Company until 8 October 2018 at which time he was succeeded by Mr. Shafiq. Mr. Carson continues to serve on the Board as a Non-Executive Director.

**Richard Ames**

***Non-Executive Director***

Mr Ames BS MS, brings to the Board 37 years of broad range experience in the oil and gas industry with senior executive roles in full-cycle oil and gas exploration and production, information technology and oil and gas services. He has held several Vice President positions in TNK-BP, Sidanco, and Amoco in Russia & Kazakhstan, where he was responsible for government liaison, the implementation of business strategies and the management of exploration and new venture projects. Mr. Ames has recently held Board and Advisory Board of Director positions in Iona, Accenture Russia, the Kiawah Conservancy, and DataSpace. Mr Ames graduated from Duke University with a Bachelor of Science degree in Geology, and from the University of Georgia with a Master of Science in Geology. Mr. Ames joined Amoco in 1981 and worked as a geologist responsible for reserve definition in several international petroleum basins including the North Sea.

**John Festival**

***Non-Executive Director***

Mr. John Festival is a chemical engineer with 36 years of experience in the Canadian oil and gas sector, focused on the WCSB and has an excellent track record of founding, growing and monetizing oil and gas ventures in Canada. He is currently the CEO of Broadview Energy and was the President and CEO of Black Pearl Resources Inc. prior to its acquisition by International Petroleum in December 2018 in a stock and debt transaction valued at c. USD715 million. He was previously the founder and President of Black Rock Ventures Inc. which was established in 2001 and sold to Shell Canada for CAD2.4 billion in 2006. He graduated in 1984 with a BSc in Chemical Engineering from the University of Saskatchewan.

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**CORPORATE GOVERNANCE REPORT**

**Overview of Board Governance**

The Group believes that its success is dependent upon sound and effective governance. The Directors recognise the importance of strong corporate governance and have developed a corporate governance framework and policies appropriate to the size of the Group.

*Board agenda and activities during the year*

The Board of Directors at the year-end included two Executive Directors and four Non-Executive Directors. The Directors are of the opinion that the recommendations of the QCA code have been implemented to an appropriate level. The Board, through the Non-Executive Interim Chairperson and Non-Executive Directors, maintain regular contact with advisors and public relations consultants in order to ensure that the Board develops an understanding of the views of major shareholders of the Company.

The Board meets regularly throughout the year, for both Committee and Board meetings. During the year to 31 December 2020 the Board met for a total of fifteen meetings, two sub-committee meetings and passed resolutions in writing on three occasions. The Board is responsible for formulating, reviewing and approving the Group's strategy, financial activities and operating performance. Day-to-day management is devolved to the Chief Executive Officer of the Company, who is charged with consulting the Board on all significant financial and operational matters. Consequently, decisions are made promptly and following consultation amongst the Directors where necessary and appropriate.

All necessary information is supplied to the Directors on a timely basis to enable them to discharge their duties effectively, and all Directors have access to independent professional advice, at the Company's expense, as and when required.

Board Meetings:

	Eligible to Attend	Attended
David Knox	2	2
Linda Beal	15	15
Graham Heath	15	15
Majid Shafiq	15	15
Neill Carson	15	15
Richard Ames	15	15
John Festival	2	2

In addition to the above meetings there were also two meetings of sub-committees of the Board.

**Governance framework**

The Board of i3 Energy plc (the "Company") has adopted the QCA Corporate Governance Code ("the Code") as its code of corporate governance. The Code is published by the Quoted Companies Alliance ("QCA") and is available at [www.theqca.com](http://www.theqca.com).

The Code sets out 10 principles that should be applied. These are listed below together with a short explanation of how the Board applies each of the principles, including where applicable any deviation from those principles:

**Principle One**

*Business Model and Strategy*

During 2020 the Company completed two significant acquisitions in the Western Canadian Sedimentary Basin ("WCSB"). The Board has concluded that the highest near to medium term value can be delivered to its shareholders by acquiring additional developed producing assets in the WCSB, as described in the Strategic Report above, which provides stable cash flow and upside drilling opportunities that can be pursued as and when commodity prices justify organic development, in addition to farming down i3's UK North Sea licences for further appraisal drilling and eventual development. These efforts will enable the Company to become a dividend payer while providing multiple potential streams of future value creation.

**Principle Two**

*Understanding Shareholder Needs and Expectations*

The Board is committed to maintaining good communication and having constructive dialogue with its shareholders. The Company has ongoing relationships with its retail shareholders. Institutional shareholders and analysts have the opportunity to discuss issues and provide feedback at meetings or via telephone conference with the Company. In addition, all shareholders, when applicable and safe to do so and in consideration of UK Government guidance, are encouraged to attend the Company's Annual and General Meetings. Investors also have access to current information on the Company through its website, [www.i3.energy](http://www.i3.energy) and via Camarco, the Company's communications advisor, who is available to answer investor relations enquiries.

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**Principle Three**

***Considering wider stakeholder and social responsibilities***

The Board recognises that the long-term success of the Company is reliant upon the efforts of the employees of the Company and its contractors, suppliers, regulators and other stakeholders. The Board has put in place a range of processes and systems to ensure that there is close oversight and contact with its key relationships. For example, following COVID-19 best practices, the Non-Executive Chairperson and NEDs participate in management calls and engage with staff and encourage a full and open dialogue process which is designed to ensure that there is two-way communication with each staff member to create proper alignment between corporate goals, targets, and employee aspirations. This feedback loop assists the Company in responding to new issues and opportunities that arise to further the success of employees and the Company. The Company has ongoing relationships with a broad range of its stakeholders and has regular and direct interaction with various levels of government and provides these stakeholders with the opportunity to raise issues and provide feedback to the Company.

**Principle Four**

***Risk Management***

In addition to its other roles and responsibilities, the Audit & Risk Committee is responsible to the Board for ensuring that procedures are in place and are being implemented effectively to identify, evaluate and manage the significant risks faced by the Company.

A detailed list of the Company's key risks are listed on pages 13, 14, 15 and 16 of this Annual Report.

The Directors have established procedures for the purpose of providing a system of internal control. An internal audit function is not considered necessary or practical due to the size of the Company. However, the Audit Committee and the Board will continue to monitor the need for an internal audit function. The Board works closely with and has regular ongoing dialogue with the Chief Financial Officer of the Company and has established appropriate reporting and control mechanisms to ensure the effectiveness of its control systems.

**Principle Five**

***A Well-Functioning Board of Directors***

As at the date hereof the Board is comprised of two Executive Directors, Mr. Majid Shafiq and Mr. Graham Heath, Interim Chairperson Ms. Linda Beal and three Non-Executive Directors, Mr. Richard Ames, Mr. Neill Carson and Mr. John Festival. Mr. David Knox resigned on 7 February 2020 and Ms. Linda Beal was appointed Interim Chairperson on that same date. The Executive Directors have direct responsibility for business operations, whilst the Chairperson leads and chairs the Board and, along with the Non-Executive Directors, has a responsibility to bring independent, objective judgement to bear on Board decisions. Biographical details of the current Directors are set out on the Company's website under the heading "About Us / Board & Executive". Executive and Non-Executive Directors are subject to re-election at each Annual General Meeting.

At the time of this report, the Non-Executive Chairperson of the Board and the Non-Executive Directors held shares and options to acquire shares in the Company. The Board has considered, in conjunction with its advisors, whether these have any impact on their independence and have concluded they do not. Apart from these matters and their directors' fees the Non-Executive Directors have no other financial interests in the Company or business relationships that would interfere with their independent judgement.

The Board meets at least six times per annum. It has established an Audit & Risk Committee, a Corporate Governance Committee, a HSES Committee, a Reserves Committee and a Remuneration Committee, particulars of which appear hereafter. The Board has agreed that appointments to the Board are made by the Board as a whole, with recommendations from the Corporate Governance Committee, and therefore has not created a Nominations Committee. The Board considers the above appropriate given the Company's current stage of operations. It shall continue to monitor the need to match resources to its operational performance and the matter will be kept under review going forward. The Non-Executive Directors are considered to be independent. The Board notes that the QCA recommends a balance between executive and Non-Executive Directors and recommends that there be two independent Non-Executives. The Board shall review further appointments as scale and complexity grows.

All Directors have access to the advice of the Company's solicitors. Necessary information is supplied to the Directors on a timely basis to enable them to discharge their duties effectively, and all Directors have access to independent professional advice, at the Group's expense, as and when required.

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***Attendance at Board and Committee Meetings***

The Company shall report annually on the number of Board meetings held during the year and the attendance record of individual Directors. In order to be efficient, the Directors meet formally and informally both in person and by telephone.

**Principle Six**

***Appropriate Skills and Experience of the Directors***

The Board currently consists of six Directors and, in addition, the Company has employed the outsourced services of Burness Paull to act as the Company Secretary. The Company believes that the current balance of skills in the Board as a whole, reflects a very broad range of commercial and professional skills across geographies and industries and each of the Directors has experience in public markets. The professional experience of each of the Directors is set out on the Company's website.

The Board includes one female director and various nationalities. Diversity will form a part of any future recruitment consideration if the Board concludes that replacement or additional directors are required.

The Board shall review annually the appropriateness and opportunity for continuing professional development whether formal or informal.

**Principle Seven**

***Evaluation of Board Performance***

Internal evaluation of the Board, the Committee and individual Directors is undertaken on an ad hoc basis in the form of appraisal by the Chairperson, who consults with the other Directors as appropriate regarding effectiveness and performance as well as the Directors' continued independence.

The results and recommendations that come out of the evaluation of the Board shall identify the key targets and requirements that are relevant to the Board.

**Principle Eight**

***Corporate Culture***

The Board recognises that their decisions regarding strategy and risk will impact the corporate culture of the Company as a whole and that this will impact their performance of the Company. The Board is very aware that the tone and culture set by the Board will greatly impact all aspects of Company and employee performance. The corporate governance arrangements that the Board has adopted are designed to ensure that the Company delivers long-term value to its shareholders and that shareholders have the opportunity to express their views and expectations to the Company in a manner that encourages open dialogue with the Board. The Company values open and respectful dialogue with employees, suppliers and other stakeholders and places a high degree of importance on sound ethical judgement and behaviours to achieve its corporate objectives. The Board expects these values to permeate throughout every aspect of the organization – employees, relationships, actions. The Directors foster an open culture which invites feedback and positive constructive challenge. The Company has adopted a code for Directors' and employees' dealings in securities which is appropriate for a company whose securities are traded on AIM and in accordance with the requirements of the Market Abuse Regulation which came into effect in 2016.

**Principle Nine**

***Maintenance of Governance Structures and Processes***

Ultimate authority for all aspects of the Company's activities rests with the Board. The Executive Directors have day-to-day responsibility for the operational management of the Company's activities. The Non-Executive Directors are responsible for bringing independent and objective judgment to Board decisions. There is clear separation of the roles of the Chief Executive Officer and Non-Executive Chairperson. The Chairperson is responsible for overseeing the running of the Board, ensuring that no individual or group dominates the Board's decision-making and ensuring the Non-Executive Directors are properly briefed on matters.

The Chairperson has overall responsibility for corporate governance matters in the Company and chairs the Corporate Governance Committee.

The Board receives monthly reports regarding the principal areas of activity of the Company and has unrestricted access to management and employees of the Company. The Board also has the authority to retain and terminate external legal counsel, consultants or other advisors to assist it in fulfilling its responsibilities and to set and pay the respective reasonable compensation of these advisors without consulting or obtaining the approval of any officer of the Company. The Company shall provide appropriate funding, as determined by the Board, for the services of these advisors.

Furthermore, the Chairperson maintains close dialogue with other Directors, both through the forum of Board meetings and through ad hoc communication on an individual level.

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***Audit & Risk Committee***

The Audit & Risk Committee meets at a minimum of twice a year. As of the date of this document, the members of the Audit & Risk Committee are Ms. Linda Beal (Chair), Mr. Richard Ames and Mr. John Festival. Each of the members of the Audit & Risk Committee are independent. Each of the members of the Audit & Risk Committee are familiar with accounting principles, financial statements and financial reporting requirements and possess experience that is relevant to the performance of their duties as members of the Audit & Risk Committee of the Company.

The Audit & Risk Committee's primary responsibilities, amongst other things, is the planning and reviewing of the Annual Report and interim statements and accounts and, where appropriate, work with external auditors, to ensure that internal controls and risk management is maintained. The Audit & Risk Committee also approves the appointment of external auditors and determines their fees and ensures the auditors' independence as well as focusing on compliance with legal requirements and accounting standards. It is also responsible for monitoring and maintaining an effective system of internal controls. The ultimate responsibility for reviewing and approving the annual financial statements and interim statements remains with the Board.

The full terms of reference for the Audit & Risk Committee are available on the Company's website.

***Corporate Governance Committee***

The Corporate Governance Committee meets as required, but at least once a year. Its members are Ms. Linda Beal (Chair), Mr. Neill Carson and Mr. John Festival.

The Corporate Governance Committee's primary purpose is to develop and recommend to the Board guidelines, policies and procedures relating to corporate governance as well as compliance with AIM and TSX rules.

***Health, Safety, Environment and Security (HSES)***

The HSES Committee meets as required, but at least twice a year. Its members are Mr. John Festival (Chair), Mr. Neill Carson, Mr. Majid Shafiq and Mr. Ian Schafer.

The HSES Committee assists the Board in conducting business in a manner that promotes a safe, secure and healthful workplace for its employees and contractors, protects the environment and ensures that the Company will continue to be a valued member of the communities in which it operates.

***Reserves Committee***

The Reserves Committee meets as required, but at least twice a year. Its members are Mr. Neill Carson (Chair) and Mr. Richard Ames. The Chief Executive Officer, the Chief Financial Officer and other Directors may also attend and speak at meetings of the reserves committee.

The Reserves Committee assists the Board in monitoring and reviewing the appointment of an independent engineering firm retained by the Company to report on the quantity and the value of the Company's oil and gas reserves. The Reserves Committee reviews the procedures by which the Company provides information to the independent engineering firm to be used as the basis of evaluation and audit, ensuring disclosure complies with applicable laws and regulations, and is also responsible for matters relating to the preparation and public disclosure of estimates of the Company's reserves.

***The Remuneration Committee***

The Remuneration Committee meets at least twice a year. Its members are Mr. Richard Ames (Chair) and Ms. Linda Beal. The Chief Executive Officer, the Chief Financial Officer and other Directors may also attend and speak at meetings of the remuneration committee.

The Company's policy is to remunerate senior executives fairly in such a manner as to facilitate the recruitment, retention and motivation of staff. The Remuneration Committee agrees with the Board a framework for the remuneration of the Chairperson, the Executive Directors and the senior management of the Company.

The principal objective of the committee is to ensure that members of the executive management of the Company are provided incentives to encourage enhanced performance and are, in a fair and responsible manner, rewarded for their individual contributions to the success of the Company. Non-Executive fees are considered and agreed by the Board as a whole.

The Company shall include, when relevant, in its Annual Report, any matters of note arising from the audit or remuneration committees.

The terms of reference of the Remuneration Committee are available on the Company's website.

**Principle Ten**

***Shareholder Communication***

The Board is committed to maintaining good communication and having constructive dialogue with its shareholders. The Company has ongoing relationships with its retail shareholders. Institutional shareholders and analysts have the opportunity to discuss issues and

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provide feedback at meetings with the Company. In addition, all shareholders, when applicable and safe to do so and in consideration of UK Government guidance, are encouraged to attend the Company's Annual and General Meetings.

Investors also have access to current information on the Company through its website, [www.i3.energy](http://www.i3.energy) and via Camarco, the Company's communication advisor, who is available to answer investor relations enquiries.

**Internal controls**

The Directors acknowledge their responsibility for the Group's system of internal controls and for reviewing their effectiveness. These internal controls are designed to safeguard the assets of the Group and to ensure the reliability of financial information for both internal use and external publication. Whilst the Directors are aware that no system can provide absolute assurance against material misstatement or loss, regular reviews of internal controls are undertaken to ensure that they are adequate and effective.

**Risk management, uncertainties and treasury policy**

Risk assessment and evaluation is an essential part of the Group's planning and is an important aspect of the Group's internal controls system – a crucial activity for achieving its strategic objectives.

There is a process of evaluation of projects, activities, and performance targets wherein the Board regularly reviews actual progress to that previously forecast. Project milestones and timelines are regularly reviewed.

The Group finances its operations through debt, equity, and operating cash flows, and holds its cash as a liquid resource to fund the obligations of the Group. Decisions regarding the management of these assets are approved by the Board. Please refer to note 21 for further detail on how the Board manages financial risk.

The principal risks facing the Group are set out in the Strategic Report.

**Securities trading**

The Board has adopted a Share Dealing Code that applies to Directors, senior management and any employee who is in possession of material non-public information ("MNPI"). All such persons are prohibited from trading in the Company's securities if they are in possession of MNPI. Subject to this condition and trading prohibitions applying to certain periods, trading can occur provided the relevant individual has received the appropriate prescribed clearance from the Company's Nomad.



Linda Beal  
Interim Non-Executive Chairperson

31 May 2021

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**Directors' Report**  
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**DIRECTORS' REPORT**

The Directors are pleased to present this year's Annual Report together with the audited consolidated financial statements for the year ended 31 December 2020.

**Principal Activities**

The principal activities of the Group consist of the development and production of oil and gas assets in the UK and Canada. The Company's wholly-owned subsidiaries - i3 Energy North Sea Limited and i3 Energy Canada Limited are independent oil and gas companies with appraisal assets in the UK and producing assets in Canada, respectively. The Company's principal activity is that of a listed holding company.

**Business Review and Future Developments**

Despite the budgetary constraints and challenging market conditions in i3's sector, the Group acquired producing assets in the WCSB while continuing to progress the appraisal and development of its UKCS asset base. The Business Developments during the year are highlighted in the Chairperson and Chief Executive Officer's Statement within the Strategic Report.

**Results and Dividends**

The profit on ordinary activities of the Group after taxation amounted to £11.72 million (2019 – loss of £10.85 million). There were no dividends paid in 2020 (2019 - Nil).

**Directors' Remuneration**

The Group remunerates the Directors at levels commensurate with its size and the experience of its Directors. The Remuneration Committee has reviewed the Directors' remuneration, after consultation with an external advisor, and believes the levels uphold these objectives. Details of the Directors' emoluments and payments made for professional services rendered are set out in note 10 to the financial statements.

**Directors and their interests**

The beneficial interests of the Directors in the shares and options of the Company at 31 December are as follows:

Director	2020	2019	2020	2019
	Shares	Shares	Options	Options
David Knox (resigned 7 February 2020)	411,638	411,638	461,318	461,318
Neill Carson	6,712,133	6,712,133	534,376	534,376
Graham Heath	6,816,213	6,816,213	1,734,282	1,734,282
Majid Shafiq	143,765	143,765	2,807,776	2,807,776
Richard Ames	204,575	204,575	534,376	534,376
Linda Beal	–	–	--	123,058
John Festival	–	–	134,262	–

None of the Directors exercised any share options during the year. On 29 April 2021, the Company announced that certain of its directors exercised options over 6,045,072 shares in the Company.

**Share Capital**

At 31 December 2020, 700,054,815 ordinary shares with a nominal value of £0.0001 each and 5,000 deferred shares of £10 each were issued and fully paid. Each ordinary share carries one vote and the deferred shares do not confer any voting rights.

**Substantial Shareholders**

At 21 May 2021, notification had been received by the Company of the following who had a disclosable interest in 3% or more of the nominal value of the ordinary share capital of the Company:

Bybrook Capital	28.57%
Premier Miton Investors	14.53%
Slater Investments	9.65%
Lombard Odier	4.90%
Hargreaves Lansdown	5.76%

As at 21 May 2021 the Company had not been notified of any other person who had an interest in 3% or more of the nominal value of the ordinary share capital of the Company.

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**Directors' Report**  
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**Corporate Governance**

A statement of Corporate Governance is set out on pages 23 to 27. The Group has adopted the Quoted Companies Alliance Corporate Governance Code ("the Code"). Details of how the Group complies with the Code, and the reasons for any non-compliance, are set out on page 23 to 27, together with the principles contained within the Code.

Information on the Audit & Risk Committee, Corporate Governance Committee, Reserves Committee and Remuneration Committee is included in the Corporate Governance section of the Annual Report.

**Environmental Responsibility**

The Company is aware of the potential impact that its subsidiaries and investments may have on the environment. Accordingly, the Group ensures that with regard to the environment, all its companies and associated subsidiaries at a minimum comply with applicable jurisdictional regulatory guidelines including those of the UK Oil and Gas Authority, the Alberta Energy Regulator, Saskatchewan Energy and Resources, the BC Oil and Gas Commission and other local regulators.

**Engagement with employees and stakeholders**

The Group is committed to promoting policies that ensure high calibre employees are attracted, motivated and retained for the ongoing success of the business. Employees and those who seek to work within the Group are treated equally regardless of sex, marital status, creed, colour, race or ethnic origin.

The Board is committed to effectively communicating with the stakeholders of the Company. Clear communication with shareholders and all stakeholders is an important aspect of the role of the Group's Board and senior management. In addition to the regulatory forms of communication, including annual and interim reports and Regulatory News Service releases, enquiries from shareholders are encouraged and are to receive a timely response from either the Company or its representatives.

Details of the Group's activities can be found at the Company's website ([www.i3.energy](http://www.i3.energy)).

All shareholders are offered the choice of receiving shareholder documentation electronically or in paper format, as well as the choice of submitting proxy votes either electronically or by post.

**Insurance and indemnities**

The Group maintains insurance in respect of its Directors and Officers against liabilities in relation to the Company and the Group. The Group maintains insurance in respect of its exploration and development and operational projects in the North Sea and Canada.

**Information contained elsewhere in this Annual Report**

Information regarding the Group's key performance indicators, subsequent events, principal risks and uncertainties, and future developments are set out in the Strategic Report. Information regarding the Group's financial instruments and risk management policies are set out in note 21 to the Group Financial Statements.

**Statement of 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 auditor is unaware, and the Directors have taken all the steps that they ought to have taken in order to make themselves aware of any relevant audit information and to establish that the Group's auditor is aware of that information.

**Auditor**

PKF Littlejohn LLP has signified its willingness to act as the Company's auditor.

**Going Concern**

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic Report in the Chairperson's and Chief Executive's Statement and Strategy and KPIs sections. The financial position of the Group, its net cash position and liabilities are described in the Financial Review. Further information on the Group's commitments is provided in note 22 and on the Group's exposure to financial risks and management thereof is provided in note 21.

The Group ended the year with cash and cash equivalents of £6.2 million, current assets of £15.1 million, and current liabilities of £14.4 million. The Group's debt primarily consists of the £22.0 million H1-2019 LNs which mature in 2023. Following the Gain and Toscana acquisitions the Group began generating revenue and cash flow from operations which will be used to fund the Group's obligations as they come due.

The Directors have given careful consideration to the appropriateness of the going concern assumption, including cash forecasts through the end of 2022, committed capital expenditure, and the principal risks and uncertainties faced by the Group. This assessment also considered various downside scenarios including oil and gas commodity prices and production rates. Following this review, the

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Directors are satisfied that the Group has sufficient resources to operate and to meet their commitments as they come due over the going concern period which considers at least 12 months from the date of approval of the financial statements. Accordingly, the Directors continue to adopt the going concern basis in preparing the financial statements for the year ended 31 December 2020.

**Statement of Directors' Responsibilities**

The Directors are responsible for preparing the Annual Report and the Financial Statements in accordance with applicable laws and regulations.

The Directors are required to prepare financial statements for each financial year. The Directors have elected to prepare the Group Financial Statements in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006. Under Company law the Directors must not approve the Financial Statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and of the profit or loss of the Group for that year. In preparing these Financial statements, the Directors are required to:

- Select suitable accounting policies and then apply them consistently;
- Make judgements and accounting estimates that are reasonable and prudent;
- State whether applicable international accounting standards in conformity with the Companies Act 2006 have been followed, subject to any material departures disclosed and explained in the Financial Statements; and
- Prepare the 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 that are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy at any time the financial position of the Group. 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 Group's website. The Group is compliant with AIM Rule 16 regarding the Group's website.

**Annual General Meeting**

The Annual General Meeting of the Company will be held on 30 June 2021 as detailed in the Notice of Meeting.

This report was approved by the Board and was signed on its behalf:



Linda Beal  
Interim Non-Executive Chairperson

31 May 2021

**i3 Energy plc**  
**Independent Auditors Report**  
**For the Year Ended 31 December 2020**

**INDEPENDENT AUDITORS REPORT**

**Independent Auditors Report to Members of i3 Energy Plc**

**Opinion**

We have audited the financial statements of i3 Energy Plc (the ‘parent company’) and its subsidiaries (the ‘group’) for the year ended 31 December 2020 which comprise the Consolidated Statement of Comprehensive Income, the Consolidated and Parent Company Statements of Financial Position, the Consolidated and Company Statements of Changes in Equity, the Consolidated Statement of Cash Flow and notes to the financial statements, including significant accounting policies. The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law and international accounting standards in conformity with the requirements of the Companies Act 2006. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards, including FRS 101 Reduced Disclosure Framework (United Kingdom Generally Accepted Accounting Practice).

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 31 December 2020 and of the group’s profit and the 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 United Kingdom Generally Accepted Accounting Practice; 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**

In auditing the financial statements, we have concluded that the director’s use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Our evaluation of the directors’ assessment of the group’s and parent company’s ability to continue to adopt the going concern basis of accounting included a review of budgets for the period of 12 months from the date of approval of the financial statements, including checking the mathematical accuracy of the budgets, discussion of significant assumptions used by management, and comparing these with current year and post year end performance. We have also reviewed the latest available post year end management accounts, bank statements, regulatory announcements, board minutes and assessed any external industry wide factors which might affect the group and the parent company.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the group’s or parent company’s ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

**Our application of materiality**

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. The materiality for the financial statements as a whole applied to the group financial statements was set at £3,075,000 (2019 – 1,309,800), with performance materiality set at £1,845,000 (2019 – 785,880). The increase is a result of the acquisitions made in the year.

The group materiality for the financial statements as a whole has been calculated as 4% of net assets, which we have determined, in our professional judgement, to be one of the principal benchmarks within the financial statements relevant to members of the group in assessing financial performance. The benchmark is deemed to be relevant as the key areas of focus of the group relate to the value of the producing and exploration assets, as well as the accompanying decommissioning provision, and the loan notes outstanding.

The parent company materiality for the financial statements as a whole was set at £1,406,000 for statement of financial position items and £106,000 for statement of comprehensive income items testing. The parent company performance materiality was set at £843,600 and

**i3 Energy plc**  
**Independent Auditors Report**  
**For the Year Ended 31 December 2020**

£63,600, respectively. The reason being a result of the key area of focus for the company financial statements being the recoverability of loans to subsidiaries. A separate materiality for profit and loss items was calculated in order to ensure sufficient appropriate coverage was obtained in order to provide an opinion. For each component in the scope of our group audit, we allocated a materiality that was less than our overall group materiality. We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £153,750 (group audit) and £70,300 & £5,300 for company's statement of financial position and company's statement of comprehensive income respectively.

**Our approach to the audit**

In designing our audit, we determined materiality and assessed the risk of material misstatement in the financial statements. In particular, we looked at areas involving significant accounting estimates and judgement by the directors such as the impairment of intangible assets and the assumptions used in calculating the fair value of financial assets acquired through the business combinations during the year and considered future events that are inherently uncertain. We also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

The group holds three companies that are consolidated within these financial statements, two based in the UK and one based in Canada. We identified three significant components, being the parent company, i3 Energy North Sea Ltd and i3 Energy Canada Ltd., which were subject to a full scope audit by a team with relevant sector experience from the PKF London office. No component auditors were engaged.

The approach gave the audit team 100% coverage on gross assets and 100% coverage on loss for the year for the group.

**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 year 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.

Key Audit Matter	How our scope addressed this matter
<p><b><u>Carrying Value of Property, plant &amp; equipment ("PPE") (Note 12)</u></b></p> <p>As at 31 December 2020, the carrying value of the producing assets in relation to the group's projects in Canada are £109m.</p> <p>Management are required to assess the producing assets for impairment indicators under IAS 36.</p> <p>There is a risk the value of the producing assets is overstated, which is increased as a result of the impact of the price war and the COVID-19 pandemic on the industry throughout the year which resulted in the West Texas Intermediate ("WTI") crude benchmark falling negative for the first time in history. There is also the inherent uncertainty following the return to normality post pandemic.</p>	<p>Our work in this area included:</p> <ul style="list-style-type: none"> <li>• Confirmation that the group has good title to the applicable licences;</li> <li>• Review of capitalised costs including consideration of appropriateness for capitalisation under IAS 16;</li> <li>• Review of a sample of costs expensed in the year to confirm they do not meet the IAS 16 capitalisation criteria and thus are appropriately recorded in the Statement of Comprehensive Income;</li> <li>• Ensuring consistent accounting treatment of costs which have been capitalised and those included in the Statement of Comprehensive income;</li> <li>• Obtaining a copy of the most recent Competent Person Report and ensuring key inputs used in the discounted cash flow model are consistent with the report (e.g. reserves). Assessing the competence and independence of the expert;</li> <li>• Consideration of management's impairment reviews, including challenge of key assumptions and performing sensitivity analysis on key assumptions to assess the impact on the net present value of the asset; and</li> <li>• Ensuring appropriate disclosure thereto.</li> </ul>

**i3 Energy plc**  
**Independent Auditors Report**  
**For the Year Ended 31 December 2020**

<b>Key Audit Matter</b>	<b>How our scope addressed this matter</b>
<p><b><u>Carrying Value of Exploration Assets (Note 13)</u></b></p> <p>The group holds intangible assets of £48.81m as at 31 December 2020, comprising capitalised exploration costs in respect of the Liberator and Serenity projects. There is a risk that additions in assets have not been capitalised in accordance with IFRS 6 criteria and that the carrying value of the asset is overstated as at 31 December 2020.</p> <p>Particularly for early stage exploration projects where the calculation of recoverable amount via value in use calculations is not possible, management’s assessment of impairment under IFRS 6 requires significant estimation and judgement. The risk is enhanced as a result of the COVID-19 pandemic.</p>	<p>Our work in this area included:</p> <ul style="list-style-type: none"> <li>• Confirmation that the group has good title to the applicable licences;</li> <li>• Review of capitalised costs including consideration of appropriateness for capitalisation under IFRS 6;</li> <li>• Review of a sample of costs expensed in the year to confirm they do not meet the IFRS 6 capitalisation criteria and thus are appropriately recorded in the Statement of Comprehensive Income;</li> <li>• Ensure the consistent accounting treatment of costs which have been capitalised and those included in the Statement of Comprehensive income;</li> <li>• Obtaining a copy of the most recent Competent Person Report and ensuring key inputs used in the discounted cash flow model are consistent with the report (e.g. reserves). Assessing the competence and independence of the expert;</li> <li>• Assessment of progress of the individual projects during the year and post year-end;</li> <li>• Consideration of management’s impairment reviews in line with IFRS 6, including challenge of key assumptions thereto;</li> <li>• Ensuring appropriate disclosure thereto.</li> </ul>
<p><b><u>Recoverability of investments and intragroup balances (parent company) (Note 5)</u></b></p> <p>Investments in subsidiaries and intra group loans are significant assets in the parent company's financial statements. Their recoverability is directly linked to the recoverability of intangible assets in those entities, and hence may not be fully recoverable.</p> <p>The recoverability of said assets are subject to management estimate, and as a result of their significant value, has been determined to be a Key Audit Matter.</p>	<p>Our work in this area included:</p> <ul style="list-style-type: none"> <li>• Confirmation of ownership of investments;</li> <li>• Assessment of expected credit losses in respect of intragroup balances in accordance with IFRS 9 criteria;</li> <li>• Consideration of recoverability of investments and intragroup loans by reference to underlying net asset values and projects; and</li> <li>• Ensuring appropriate disclosure thereto.</li> </ul>
<p><b><u>Acquisition of Toscana Energy Income Corporation (Note 4)</u></b></p> <p>During the year, the parent company gained control of Toscana Energy Income Corporation through acquisition of shareholding.</p> <p>There is a risk that the acquisition has not been accounted for correctly and the required disclosures have not been made under IFRS 3. Management estimation is required surrounding the fair values of the assets and liabilities acquired, and the calculation of the bargain purchase recorded in the statement of comprehensive income. Thus, this has been determined as a Key Audit Matter.</p>	<p>Our work in this area included:</p> <ul style="list-style-type: none"> <li>• Review of the business combination workings, including testing the accuracy of the Toscana Energy Income Corporation trial balance as at acquisition.</li> <li>• Review of the fair value estimates included within the business combination and challenging management assumptions thereto;</li> <li>• Recalculation of the bargain purchase arising from the acquisition.</li> <li>• Obtaining supporting documentation as evidence of ownership of the business acquired.</li> <li>• A review of the consolidation workings; and</li> <li>• Consideration the appropriateness of the disclosures made.</li> </ul>

**i3 Energy plc**  
**Independent Auditors Report**  
**For the Year Ended 31 December 2020**

<b>Key Audit Matter</b>	<b>How our scope addressed this matter</b>
<p><b><u>Acquisition and Disposal of Gain Energy Assets (Note 4)</u></b></p> <p>During the year the group entered into an agreement with Gain Energy Ltd to acquire 100% of its producing and non-producing petroleum assets in the Canadian provinces of Alberta and Saskatchewan. At the same time, the group also entered into a separate agreement with Harvard Resources Inc to sell off those petroleum and infrastructure assets currently held by Gain which are located in Saskatchewan conditional on completion of gain acquisition.</p> <p>There is a risk that the acquisition has not been accounted for correctly and the required disclosures have not been made under IFRS 3. Management estimation is required surrounding the fair values of the assets and liabilities acquired, and the calculation of the bargain purchase recorded in the statement of comprehensive income. Thus, this has been determined as a Key Audit Matter.</p>	<p>Our work in this area included:</p> <ul style="list-style-type: none"> <li>• Obtaining and reviewing the Gain Ltd purchase and Harvard sell agreement;</li> <li>• Review of the fair value estimates included within the business combination and challenging management assumptions thereto;</li> <li>• Review of the accounting treatment adopted by management in respect of the purchase of Gain Ltd assets and their subsequent disposal, ensuring it is in line with the requirements of IFRS.</li> <li>• Review of the gain / loss calculated on purchase and disposal of assets.</li> <li>• Consideration the appropriateness of the disclosures made.</li> </ul>

**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 contained within the Annual Report. 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. 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 course of 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 this gives rise to a material misstatement in the financial statements themselves. 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 their 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.

**i3 Energy plc**  
**Independent Auditors Report**  
**For the Year Ended 31 December 2020**

**Responsibilities of directors**

As explained more fully in the Statement of Directors Responsibilities, the directors are responsible for the preparation of the group and parent company 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 group and parent company 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.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

We obtained an understanding of the group and parent company and the sector in which they operate to identify laws and regulations that could reasonably be expected to have a direct effect on the financial statements. We obtained our understanding in this regard through discussions with management, and application of audit knowledge and experience of the sector.

We determined the principal laws and regulations relevant to the group and parent company in this regard to be those arising from financial reporting legislation being IFRS for the consolidated financial statements and FRS 101 for the Company financial statements, the Companies Act 2006, taxation legislation, AIM Rules, local employment law and Canada Oil and Gas Drilling and Production Regulations.

Our audit procedures were designed to ensure the audit team considered whether there were any indications of non-compliance by the group and parent company with those laws and regulations.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

- We obtained an understanding of the group and parent company and the sector in which they operate to identify laws and regulations that could reasonably be expected to have a direct effect on the financial statements. We obtained our understanding in this regard through discussions with management, industry research, and application of cumulative audit knowledge and experience of the sector.
- We determined the principal laws and regulations relevant to the group and parent company in this regard to be those arising from:
  - Companies Act 2006
  - Canada Business Corporations Act
  - Securities Law
  - Anti Money Laundering Legislation
  - Local tax laws and regulations
- We designed our audit procedures to ensure the audit team considered whether there were any indications of non-compliance by the group and parent company with those laws and regulations. These procedures included, but were not limited to:
  - A review of the Board minutes throughout the year and post year end
  - A review of the RNS announcements;
  - A review of general ledger transactions;
  - Discussion with management;
  - Confirmation from legal advisors.

**i3 Energy plc**  
**Independent Auditors Report**  
**For the Year Ended 31 December 2020**

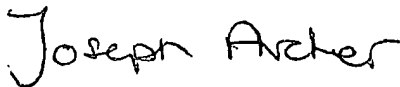
- We also identified the risks of material misstatement of the financial statements due to fraud. We considered, in addition to the non-rebuttable presumption of a risk of fraud arising from management override of controls, the risk relating to the valuation of the assets and liabilities acquired to be an area of potential for management bias. The valuation of the assets acquired are classified as “level 3” in the fair value hierarchy table, and supporting evidence has been obtained from the financial information available to support the fair value of the assets acquired.
- As in all of our audits, we addressed the risk of fraud arising from management override of controls by performing audit procedures which included, but were not limited to: the testing of journals; reviewing accounting estimates for evidence of bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business

Because of the inherent limitations of an audit, there is a risk that we will not detect all irregularities, including those leading to a material misstatement in the financial statements or non-compliance with regulation. This risk increases the more that compliance with a law or regulation is removed from the events and transactions reflected in the financial statements, as we will be less likely to become aware of instances of non-compliance. The risk is also greater regarding irregularities occurring due to fraud rather than error, as fraud involves intentional concealment, forgery, collusion, omission or misrepresentation.

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](http://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.



**Joseph Archer (Senior Statutory Auditor)**  
**For and on behalf of PKF Littlejohn LLP**  
**Statutory Auditor**

31 May 2021

15 Westferry Circus  
Canary Wharf  
London E14 4HD

**i3 Energy plc**  
**Consolidated Statement of Comprehensive Income**  
**For the Year Ended 31 December 2020**

	Notes	Year Ended 31 December 2020 £'000	Year Ended 31 December 2019 Restated * £'000
Revenue	6	12,991	–
Production costs		(8,075)	–
Depreciation and depletion	12	(4,854)	–
<b>Gross profit</b>		<b>62</b>	<b>–</b>
Administrative expenses	7	(5,755)	(5,317)
Acquisition costs	4	(1,542)	–
Gain on bargain purchase	4	25,211	–
<b>Operating profit / (loss)</b>		<b>17,976</b>	<b>(5,317)</b>
Finance costs	8	(7,368)	(5,534)
<b>Profit / (loss) before tax</b>		<b>10,608</b>	<b>(10,851)</b>
Tax credit for the year	9	1,110	–
<b>Profit (loss) for the year</b>		<b>11,718</b>	<b>(10,851)</b>
<b>Other comprehensive (loss):</b>			
<b>Items that may be reclassified subsequently to profit or loss:</b>			
Foreign exchange differences on translation of foreign operations		(147)	–
<b>Other comprehensive (loss) for the year, net of tax</b>		<b>(147)</b>	<b>–</b>
<b>Total comprehensive income / (loss) for the year</b>		<b>11,571</b>	<b>(10,851)</b>
<b>Earnings / (loss) per share</b>			
		<b>Pence</b>	<b>Pence</b>
Earnings / (loss) per share – basic	11	3.78	(13.42)
Earnings / (loss) per share - diluted	11	3.46	(13.42)

All operations are continuing.

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

\* The presentation, description, and classification of certain comparative lines have been restated – see Note 2.


**i3 Energy plc**  
**Consolidated Statement of Financial Position**  
**For the Year Ended 31 December 2020**

	Notes	31 December 2020 £'000	31 December 2019 £'000
<b>ASSETS</b>			
<i>Non-current assets</i>			
Property, plant & equipment	12	108,509	8
Exploration and evaluation assets	13	48,809	46,528
Deferred tax asset	9	1,052	-
Deposit	4	678	-
<b>Total non-current assets</b>		<b>159,048</b>	<b>46,536</b>
<i>Current assets</i>			
Cash and cash equivalents		6,178	19,070
Trade and other receivables	14	8,731	305
Inventory		164	-
<b>Total current assets</b>		<b>15,073</b>	<b>19,375</b>
<i>Current liabilities</i>			
Trade and other payables	15	(13,156)	(18,205)
Borrowings and leases	16	(28)	-
Decommissioning provision	17	(1,234)	-
<b>Total current liabilities</b>		<b>(14,418)</b>	<b>(18,205)</b>
<b>Net current assets</b>		<b>655</b>	<b>1,170</b>
<i>Non-current liabilities</i>			
Non-current accounts payable	15	(3,000)	(3,000)
Borrowings and leases	16	(17,958)	(13,046)
Decommissioning provision	17	(65,549)	-
<b>Total non-current liabilities</b>		<b>(86,507)</b>	<b>(16,046)</b>
<b>Net assets</b>		<b>73,196</b>	<b>31,660</b>
<i>Capital and reserves</i>			
Ordinary shares	18	70	11
Deferred shares	18	50	50
Share premium	18	61,605	32,572
Share-based payment reserve	19	6,337	3,803
Warrants – LNs	16	9,714	11,375
Foreign currency translation reserve		(147)	-
Accumulated deficit		(4,433)	(16,151)
<b>Shareholders' funds</b>		<b>73,196</b>	<b>31,660</b>

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

The consolidated financial statements of i3 Energy plc, company number 10699593, were approved by the Board of Directors and authorized for issue on 31 May 2021.

Signed on behalf of the Board of Directors by:



Majid Shafiq  
Director

**i3 Energy plc**  
**Consolidated Statement of Changes in Equity**  
**For the Year Ended 31 December 2020**

	Notes	Ordinary shares £'000	Share premium £'000	Deferred shares £'000	Share-based payment reserve £'000	Warrants - LN £'000	Foreign currency translation reserve £'000	Accumulated deficit £'000	Total £'000
<b>Balance at 31 December 2018</b>		4	9,215	50	686	–	–	(5,300)	4,656
Total comprehensive loss for the year		–	–	–	–	–	–	(10,851)	(10,851)
Transactions with owners:									
Issue of share capital	18	7	23,357	–	–	–	–	–	23,363
Warrants – LNs		–	–	–	–	11,375	–	–	11,375
Share-based payment expense	19	–	–	–	3,117	–	–	–	3,117
<b>Balance at 31 December 2019</b>		<b>11</b>	<b>32,572</b>	<b>50</b>	<b>3,803</b>	<b>11,375</b>	<b>–</b>	<b>(16,151)</b>	<b>31,660</b>
Total comprehensive income for the year		–	–	–	–	–	(147)	11,718	11,571
Transactions with owners:									
Issue of share capital	18	58	27,372	–	–	–	–	–	27,430
Exercise of warrants – LNs	19	1	1,661	–	–	(1,661)	–	–	1
Share-based payment expense	19	–	–	–	2,534	–	–	–	2,534
<b>Balance at 31 December 2020</b>		<b>70</b>	<b>61,605</b>	<b>50</b>	<b>6,337</b>	<b>9,714</b>	<b>(147)</b>	<b>(4,433)</b>	<b>73,196</b>

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

The following describes the nature and purpose of each reserve within equity:

Reserve	Description and purpose
Ordinary shares	Represents the nominal value of shares issued
Share premium account	Amount subscribed for share capital in excess of nominal value
Deferred shares	Represents the nominal value of shares issued, the shares have full capital distribution (including on wind up) rights and do not confer any voting or dividend rights, or any of redemption
Share-based payment reserve	Represents the accumulated balance of share-based payment charges recognised in respect of share options granted by the Company less transfers to retained deficit in respect of options exercised or cancelled/lapsed
Warrants – LNs	Represents the accumulated balance of share-based payment charges recognised in respect of warrants granted by the Company in respect to warrants granted to the loan note holders
Foreign currency translation reserve	Exchange differences arising on consolidating the assets and liabilities of the Group's non-Pound Sterling functional currency operations (including comparatives) recognised through the Consolidated Statement of Other Comprehensive Income.
Retained earnings	Cumulative net gains and losses recognised in the Consolidated Statement of Comprehensive Income

Note: The issued share capital comprises of both ordinary and deferred shares and the consolidated nominal value exceeds the required minimum issued capital of £50,000.

**i3 Energy plc**  
**Consolidated Statement of Cash Flow**  
**For the Year Ended 31 December 2020**

	Notes	Year ended 31 December 2020 £'000	Year ended 31 December 2019 Restated * £'000
<b>OPERATING ACTIVITIES</b>			
Profit / (loss) before tax		10,608	(10,851)
Adjustments for:			
Depreciation and depletion	12	4,854	9
Gain on bargain purchase	4	(25,211)	–
Finance costs	8	7,368	5,534
Unrealized FX loss / (Gain)	7	68	(28)
Stock-based payments expense - employees	7	336	1,206
Operating cash flows before movements in working capital:			
(Increase) in trade and other receivables		(7,217)	(146)
Increase in trade and other payables		4,974	295
Increase in inventory		69	–
<b>Net cash used in operating activities</b>		<b>(4,151)</b>	<b>(3,981)</b>
<b>INVESTING ACTIVITIES</b>			
Business acquisitions	4	(18,474)	–
Cash assumed on business acquisitions	4	262	–
Expenditures on property, plant & equipment		(229)	(3)
Expenditures on exploration and evaluation assets		(17,403)	(21,032)
Expenditure on decommissioning oil and gas assets	17	(131)	–
Tax credit for R&D expenditure	9	383	–
<b>Net cash used in investing activities</b>		<b>(35,592)</b>	<b>(21,035)</b>
<b>FINANCING ACTIVITIES</b>			
Proceeds on issue of ordinary shares, net of issue costs	18	27,253	23,363
Proceeds on issuance of H1-2019 LNs	16	–	22,000
Repayment CLNs	16	–	(433)
Interest and other finance charges paid	8	(114)	(1,200)
Lease payments	16	(10)	–
<b>Net cash from financing activities</b>		<b>27,129</b>	<b>43,730</b>
Effect of exchange rate changes on cash		(278)	(242)
<b>Net (Decrease) / Increase in cash and cash equivalents</b>		<b>(12,892)</b>	<b>18,472</b>
Cash and cash equivalents, beginning of year		19,070	598
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>		<b>6,178</b>	<b>19,070</b>

Net debt reconciliation is shown in note 16

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

\* The presentation, description, and classification of certain comparative lines have been restated – see Note 2.

**i3 Energy plc**  
**Notes To the Group Financial Statements**  
**For the Year Ended 31 December 2020**

**1 Summary of significant accounting policies**

**General Information and Authorisation of Financial Statements**

i3 Energy plc (“the Company”) is a Public Company, limited by shares, registered in England and Wales under the Companies Act 2006 with registered number 10699593. The Company’s ordinary shares are traded on the Toronto Stock Exchange and the AIM Market operated by the London Stock Exchange. The address of the Company’s registered office is New Kings Court, Tollgate, Chandler’s Ford, Eastleigh, Hampshire, SO53 3LG.

The Company and its subsidiaries (together, “the Group”) principal activities consist of the development and production of oil and gas on the UK Continental Shelf and the Western Canadian Sedimentary Basin.

**2 Basis of preparation**

The financial statements have been prepared under the historic cost in accordance with international accounting standards in conformity with the Companies Act 2006 and international financial reporting standards adopted pursuant to Regulation (EC) No. 1606/2002 as it applies in the European Union in accordance with the requirement of the AIM rules.

The financial information is presented in Pounds Sterling (£, GBP), which is the Company’s functional currency, and rounded to the nearest thousand unless otherwise stated. The functional currency of the Company’s UK subsidiary, i3 Energy North Sea Limited, is GBP, and the functional currency of its Canadian subsidiary, i3 Energy Canada Limited, is CAD.

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied unless otherwise stated. The Company has elected not to present individual financial statements as it is not required to do so.

**Basis of Consolidation**

The consolidated financial statements consolidate the audited financial statements of i3 Energy plc and the financial statements of its subsidiary undertakings made up to 31 December 2020.

Subsidiaries are entities over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group’s accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

**Going concern**

The directors have, at the time of approving the financial statements, a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the financial statements. The use of this basis of accounting takes into consideration the Group’s current and forecast financing position, additional details of which are provided in the going concern section of the Directors’ Report and within the Group’s Strategic Report on page 33.

**Restatement and reclassification of comparative information**

Following the acquisitions completed in 2020, commencement of production, and a review of the financial statements, the Group has elected to change the presentation and classification of certain items within the Statement of Consolidated Income and the Statement of Cash Flow. There has been no change to the reported total comprehensive loss for the year ended 31 December 2019.

Expenses related to the issuance of warrants of £1,911 thousand was previously presented within administrative expenses. This expense is now presented within finance costs.

Interest and other finance charges paid of £1,200 thousand was previously presented as a cash outflow from operating activities. This is now presented as a cash outflow from financing activities.

**i3 Energy plc**  
**Notes To the Group Financial Statements**  
**For the Year Ended 31 December 2020**

**3 Significant accounting policies**

The Gain and Toscana acquisitions resulted in the production and sale of oil and gas by the Group for the first time. As a result, the following accounting policies were adopted during the financial year:

- Property, plant and equipment – oil and gas assets
- Inventory
- Decommissioning provisions
- Joint operations
- Revenue
- Foreign operations
- Business combinations

All other accounting policies adopted are consistent with those applied in the previous financial year, unless otherwise indicated.

**Financial instruments**

***Cash and cash equivalents***

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

***Trade and other receivables***

Trade and other receivables are initially recognised at fair value when related amounts are invoiced then carried at this amount less any impairment of these receivables using the expected credit loss model. A provision for impairment is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor) that the Company will not be able to collect all of the amounts due under the original terms of the invoice. The carrying amount of receivables is reduced through use of an allowance account. Impaired debts are derecognised when they are assessed as uncollectible.

***Trade and other payables***

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

***Loan Notes***

These financial liabilities are all interest bearing and are initially recognised at amortised cost and include the transaction costs directly related to the issuance. The transaction costs are amortised using the effective interest rate method over the life of the Loan Notes.

***Financial liabilities at Fair Value Through Profit or Loss (“FVTPL”)***

Financial liabilities at FVTPL comprise of the Company’s convertible loan notes payable. Financial liabilities are classified as at FVTPL when the financial liability is (i) contingent consideration that may be paid by an acquirer as part of a business combination to which IFRS 3 applies, (ii) held for trading, or (iii) it is designated as at FVTPL.

A financial liability is classified as held for trading if:

- it has been incurred principally for the purpose of repurchasing it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Company manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial liability other than a financial liability held for trading or contingent consideration that may be paid by an acquirer as part of a business combination may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Company’s documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and IFRS Financial Instruments: Recognition and Measurement permits the entire combined contract (asset or liability) to be designated as at FVTPL.

**i3 Energy plc**  
**Notes To the Group Financial Statements**  
**For the Year Ended 31 December 2020**

**3 Significant accounting policies - continued**

Financial liabilities at FVTPL are stated at fair value, with any gains or losses arising on re-measurement recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any interest paid on the financial liability and is included in the 'other gains and losses' line item in the statement of comprehensive income.

**Embedded derivatives**

Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at FVTPL.

**Leases**

Lease liabilities are initially measured at the present value of lease payments unpaid at the commencement date. Lease payments are discounted using the incremental borrowing rate (being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions) unless the rate implicit in the lease is available. The Group currently uses the rate implicit in the lease as the discount rate for all leases. For the purposes of measuring the lease liability, lease payments comprise fixed payments.

Right-of-use assets are measured at cost, which comprises the initial measurement of the lease liability, plus any lease payments made prior to lease commencement, initial direct costs incurred and the estimated cost of restoration or decommissioning, less any lease incentives received. The right-of-use assets is depreciated on a straight-line basis over their expected useful lives. Right-of-use assets are subject to an impairment test if events and circumstances indicate that the carrying value may exceed the recoverable amount.

Lease repayments made are allocated to capital repayment and interest so as to produce a constant periodic rate of interest on the remaining lease liability balance.

Right-of-use assets are presented within property, plant and equipment. Lease liabilities are presented within borrowings and leases. In the cash flow statement, lease repayments (both the principal and interest portion) are presented within cash used in financing activities, except for payments for leases of short-term and low-value assets and variable lease payments, which are presented within cash flows from operating activities.

Leases of low-value items (such as office equipment) and short-term leases (where the lease term is 12 months or less) are expensed on a straight-line basis to the statement of comprehensive income.

**Inventory**

Inventories comprise oil and gas in tanks and field parts and supplies, all of which are stated at the lower of production cost (including royalties, depletion and amortisation of plant, property and equipment), and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business less marketing costs. The cost of inventory is expensed in the period in which the related revenue is recognised.

**Equity**

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

**Foreign currency**

Transactions denominated in currencies other than functional currency are translated at the exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are re-translated at the rate of exchange ruling at the balance sheet date. All differences that arise are recorded in the statement of comprehensive income. The functional currency of the Company is GBP, and the Group results and financial position are presented in GBP.

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated at exchange rates prevailing on the reporting date. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the date of transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in a separate component of equity (attributed to non-controlling interests as appropriate).

**Taxation**

Tax is recognised in the consolidated Statement of Comprehensive Income, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity respectively.

**i3 Energy plc**  
**Notes To the Group Financial Statements**  
**For the Year Ended 31 December 2020**

**3 Significant accounting policies - continued**

Deferred tax is accounted for using the balance sheet liability method in respect of temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill; deferred tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss.

In principle, deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which deductible temporary differences can be utilised.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Company is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred tax assets and liabilities relate to taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled. Deferred tax assets and liabilities are not discounted.

**Intangible assets – Exploration and evaluation expenditures (E&E)**

***Development expenditure***

Expenditure on the construction, installation and completion of infrastructure facilities such as platforms, pipelines and the drilling of development wells, including service, is capitalized initially within intangible fixed assets and when the well has formally commenced commercial production, then it is transferred to property, plant and equipment and is depreciated from the commencement of production as described in the accounting policy for property, plant and equipment.

***Drilling costs and intangible licenses***

The Group applies the successful efforts method of accounting for oil and gas assets, having regard to the requirements of IFRS 6 'Exploration for and Evaluation of Mineral Resources'. Costs incurred prior to obtaining the legal rights to explore an area are expensed immediately to the Statement of Comprehensive Income.

Expenditure incurred on the acquisition of a licence interest is initially capitalised within intangible assets on a field by field basis. Costs are held, unamortised, within Petroleum mineral leases until such time as the exploration phase of the field area is complete or commercial reserves have been discovered. The cost of the licence is subsequently transferred into property, plant and equipment and depreciated over its estimated useful economic life.

Exploration expenditure incurred in the process of determining exploration targets is capitalised initially within intangible assets as drilling costs. Drilling costs are initially capitalised on a well by well basis until the success or otherwise has been established. Drilling costs are written off on completion of a well unless the results indicate that hydrocarbon reserves exist and there is a reasonable prospect that these reserves are commercially viable. Drilling costs are subsequently transferred into 'Drilling expenditure' within property, plant and equipment and depreciated over their estimated useful economic life.

***Impairment***

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. This includes consideration of the IFRS 6 impairment indicators for any intangible exploration and evaluation expenditure capitalised as intangible assets. Examples of indicators of impairment include whether:

- (a) the period for which the entity has the right to explore in the specific area has expired during the period or will expire in the near future and is not expected to be renewed.
- (b) substantive expenditure on further exploration for and evaluation of mineral resources in the specific area is neither budgeted nor planned.
- (c) exploration for and evaluation of mineral resources in the specific area have not led to the discovery of commercially viable quantities of mineral resources and the entity has decided to discontinue such activities in the specific area.
- (d) sufficient data exist to indicate that, although a development in the specific area is likely to proceed, the carrying amount of the exploration and evaluation asset is unlikely to be recovered in full from successful development or by sale.

**i3 Energy plc**  
**Notes To the Group Financial Statements**  
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**3 Significant accounting policies - continued**

If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount, which is the higher of its fair value less costs to sell and its value in use. Any impairment identified is recorded in the statement of comprehensive income.

**Property, plant and equipment**

***Oil and gas assets - cost***

Oil and gas assets are accumulated generally on a cost generating unit (CGU) basis and represent the cost of developing the commercial reserves discovered and bringing them into production, together with the intangible exploration and evaluation asset expenditures incurred in finding commercial reserves transferred from intangible exploration and evaluation assets. The cost of oil and gas properties also includes the cost of directly attributable overheads, borrowing costs capitalised and the cost of recognising provision for future restoration and decommissioning.

***Oil and gas assets - depreciation***

Oil properties, including certain related pipelines, are depreciated using a unit-of-production method. The cost of producing wells is amortised over proved plus probable reserves. Licence acquisition, common facilities and future decommissioning costs are amortised over total proved plus probable reserves. The unit-of-production rate for the depreciation of common facilities takes into account expenditures incurred to date, together with estimated future capital expenditure expected to be incurred relating to as yet undeveloped reserves expected to be processed through these common facilities.

***Oil and gas assets - impairment***

An impairment test is performed whenever events and circumstances arising during the development or production phase indicate that the carrying value of an oil and gas property may exceed its recoverable amount.

The carrying value is compared against the expected recoverable amount of the asset, generally by reference to the present value of the future net cash flows expected to be derived from production of commercial reserves. The cash-generating unit applied for impairment test purposes is generally the field, except that a number of field interests may be grouped as a single cash-generating unit where the cash inflows of each field are interdependent.

Any impairment identified is charged to the income statement. Where conditions giving rise to impairment subsequently reverse, the effect of the impairment charge is also reversed as a credit to the income statement, net of any depreciation that would have been charged since the impairment.

***Non-oil and gas assets***

Property, plant and equipment is stated at cost less accumulated depreciation and any accumulated impairment losses. Depreciation is provided on all property, plant and equipment to write off the cost less estimated residual value of each asset over its expected useful economic life on a straight-line basis at the following annual rates:

- Office equipment 20% or straight line over the life of the equipment – whichever is the lesser
- Field equipment – between 5% and 25%
- All assets are subject to annual impairment reviews

**Decommissioning provision**

Liabilities for decommissioning costs are recognised when the group has an obligation to plug and abandon a well, dismantle and remove a facility or an item of plant and to restore the site on which it is located, and when a reliable estimate of that liability can be made. Where an obligation exists for a new facility or item of plant, such as oil production or transportation facilities, this liability will be recognised on construction or installation. Similarly, where an obligation exists for a well, this liability is recognised when it is drilled. An obligation for decommissioning may also crystallise during the period of operation of a well, facility or item of plant through a change in legislation or through a decision to terminate operations; an obligation may also arise in cases where an asset has been sold but the subsequent owner is no longer able to fulfil its decommissioning obligations, for example due to bankruptcy. The amount recognised is the present value of the estimated future expenditure determined in accordance with local conditions and requirements. The provision for the costs of decommissioning wells, production facilities and pipelines at the end of their economic lives is estimated using existing technology, at future prices, depending on the expected timing of the activity, and discounted using a risk-free rate.

**i3 Energy plc**  
**Notes To the Group Financial Statements**  
**For the Year Ended 31 December 2020**

**3 Significant accounting policies - continued**

An amount equivalent to the decommissioning provision is recognised as part of the corresponding intangible asset (in the case of an exploration or appraisal well) or property, plant and equipment. The decommissioning portion of the property, plant and equipment is subsequently depreciated at the same rate as the rest of the asset. Other than the unwinding of discount on or utilisation of the provision, any change in the present value of the estimated expenditure is reflected as an adjustment to the provision and the corresponding asset where that asset is generating or is expected to generate future economic benefits. If government assistance is obtained to reduce the liability, the carrying value of the decommissioning provision and the corresponding E&E or PP&E asset are reduced by the estimated amount of the extinguished liability.

**Joint operations**

Substantially all of the Group's exploration and production activities are conducted jointly with others and, accordingly, these consolidated financial statements reflect only the Group's interest in such activities.

**Revenue**

Revenue from contracts with customers is recognised, net of royalties, when or as the group satisfies a performance obligation by transferring control of a promised good or service to a customer. The transfer of control of oil, natural gas, natural gas liquids and petroleum, and other items usually coincides with title passing to the customer and the customer taking physical possession. The group principally satisfies its performance obligations at a point in time; the amounts of revenue recognised relating to performance obligations satisfied over time are not significant.

When, or as, a performance obligation is satisfied, the group recognises as revenue the amount of the transaction price that is allocated to that performance obligation. The transaction price is the amount of consideration to which the group expects to be entitled. The transaction price is allocated to the performance obligations in the contract based on standalone selling prices of the goods or services promised.

Contracts for the sale of commodities are typically priced by reference to quoted prices. Revenue from term commodity contracts is recognised based on the contractual pricing provisions for each delivery. Certain of these contracts have pricing terms based on prices at a point in time after delivery has been made. Revenue from such contracts is initially recognised based on relevant prices at the time of delivery and subsequently adjusted as appropriate. All revenue from these contracts, both that recognised at the time of delivery and that from post-delivery price adjustments, is disclosed as revenue from contracts with customers.

Royalty income is recognized as it accrues in accordance with the terms of the overriding royalty agreements.

Processing income is recognized at the time the services are rendered.

**Finance income**

Finance income consists of bank interest on cash and cash equivalents which is recognised as accruing on a straight-line basis, over the period of the deposit.

**Share-based payments**

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date. The fair value excludes the effect of non-market-based vesting conditions.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Company's estimate of equity instruments that will eventually vest. At each balance sheet date, the Company revises its estimate of the number of equity instruments expected to vest as a result of the effect of non-market-based vesting conditions. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to equity reserves.

**Business combinations**

Acquisitions of business are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interest issued by the Group in exchange for control of the acquiree. Acquisition-related costs are recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value at the acquisition date.

**i3 Energy plc**  
**Notes To the Group Financial Statements**  
**For the Year Ended 31 December 2020**

**3 Significant accounting policies - continued**

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirers previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirers previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

**Changes in accounting standards**

The standards which applied for the first time this year have been adopted and have not had a material impact.

**IFRS 11 'Joint Operations'**

The standard is effective on or after 1 January 2020. The amendments to IFRS 11 are related to changes in group composition. If a joint operation becomes a subsidiary during the year, the previously held interest in the joint operation should be remeasured at fair value. However, no such remeasurement is required in the joint operation if the entity obtains joint control of another entity that is a joint operation. The amendments did not have a material impact on the Company's financial statements.

**IFRS 3 'Business Combination'**

The standard is effective for periods beginning on or after 1 January 2020 and will be applied prospectively. The amendments narrowed and clarified the definition of business and introduced an election to use a fair value concentration test. This is a simplified assessment that results in an asset acquisition, if substantially all of the fair value of the gross assets is concentrated in a single identifiable asset or a group of similar identifiable assets. If an election to use a concentration test is not made, or the test failed, then the assessment focuses on the existence of a substantive process. The amendment did not have a material impact on the Company's financial statements as both the Gain and the Toscana acquisitions met the definition of a business and the asset concentration test was not applied.

**IAS 1 'Presentation of Financial Statements' and IAS 8 'Accounting Policies, Changes in Account Estimates and Errors'**

The amendments are effective for periods beginning on or after 1 January 2020. Both the amendments to IAS 1 and IAS are related to the definition of material and did not have a material impact on the Company's financial statements.

**Critical accounting judgements and key sources of estimation uncertainty**

The preparation of financial statements using accounting policies consistent with IFRS requires the Directors to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities and the reported amounts of income and expenses. The preparation of financial statements also requires the Directors to exercise judgement in the process of applying the accounting policies. Changes in estimates, assumptions and judgements can have a significant impact on the financial statements.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised prospectively from the period in which the estimates are revised.

There are no critical judgements identified, apart from those involving estimations (which are dealt with separately below) that the Directors have made in the process of applying the Company's accounting policies and that have the most significant effect on the amounts recognised in the financial statements.

**Critical Accounting Judgements**

The following are critical judgments, apart from those involving estimations (which are presented separately below), that the Directors have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the financial statements.

**Carrying value of intangible exploration and evaluation assets**

At 31 December 2020, the Group held oil and gas E&E assets of £48.8m (2019: £46.5m), note 13. The carrying value of E&E assets are assessed for impairment when circumstances suggest that they carrying amount may exceed its recoverable value. In making this judgement the Management considers the indicators of impairment in the intangible exploration and evaluation asset accounting policies set out above. In particular, Management has considered the expiration of the P.1987 licence on 31 December 2020, concluding that this does not represent an indicator of impairment. Further discussion is provided in note 13.

**i3 Energy plc**  
**Notes To the Group Financial Statements**  
**For the Year Ended 31 December 2020**

**3 Significant accounting policies - continued**

***Carrying value of property, plant and equipment – oil and gas assets***

At 31 December 2020, the Group held oil and gas PP&E assets of £108.5m (2019: nil), note 12, which were acquired through the Gain and Toscana acquisitions which completed in the period, note 4. These assets are subject to an annual impairment assessment under IAS 36 'Impairment of assets' whereby Management is first required to consider if there are any indicators of impairment, and if so, Management is then required to estimate the asset's recoverable amounts. The judgement over indicators of impairment considers several internal and external factors, including changes in estimated commercial reserves, changes in oil prices, and changes in expected future operating and capital expenditure, decommissioning expenditure, increases in cost of capital which may indicate a higher discount rate is likely required in assessing the assets recoverable amount. After considering the above, Management has concluded that there was no indicators of impairment of oil and gas PP&E assets as at 31 December 2020.

***Fair value judgements for businesses acquired***

The Group completed 2 acquisitions during the year ended 31 December 2020. Management has applied judgement in concluding that the Group had acquired a business in both the Gain and Toscana acquisitions. In accordance with IFRS 3 'Business combinations', management has then applied judgement in estimating the fair value of assets acquired and liabilities assumed, which included estimates relating to oil and gas reserves, future production rates, oil and gas prices, operating and capital expenditure, decommissioning expenditure, and discount rates. Further details are provided in note 4.

***Key sources of estimation uncertainty***

The key assumptions concerning the future, and other key sources of estimation uncertainty at the reporting period that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

***Commercial hydrocarbon reserves estimates***

Commercial hydrocarbon reserves are those that can be economically extracted from the Group's oil and gas assets. These estimates are based on information compiled by independent qualified persons as at 31 December 2020 and consider a number of factors, including assumptions about future commodity prices, production rates, operating costs, exchange rates, and various geological and geophysical technical factors to model reservoir size, quality, and extractability. Reserve estimates may change from period to period. Changes to reserves estimates may have a material impact on the depreciation charge for oil and gas PP&E assets, the decommissioning provision, the carrying value of deferred tax assets, and the Group's conclusions around indicators of impairment for oil and gas PP&E assets. The reserve reports are available at <https://i3.energy/>.

The Group estimates it had acquired 57.8 MMboe of proved plus probable reserves through the Gain and Toscana acquisitions. A 1.0 MMboe increase/decrease in this estimate would have decreased/increased the oil and gas depreciation charge for the period by £144 thousand, respectively.

***Decommissioning costs***

At 31 December 2020 the Group had recorded a decommissioning provision of £66.8 million (2019: nil), which were assumed through the Gain and Toscana acquisitions which completed in the period, note 4. In estimating the amount of the provision, Management makes various assumptions around costs, time to abandonment and inflation rates, which are discounted at long term government bond rates, see note 17.

The most difficult, subjective or complex assumptions include the inflation rate and the discount rate. A 0.5% increase/decrease in the inflation rate would have increased/decreased the decommissioning provision by £9.9 million and £8.3 million, respectively. A 0.5% increase/decrease in the discount rate would have decreased/increased the decommissioning provision by £8.2 million and £10.0 million, respectively.

***Recognition and measurement of deferred tax assets***

At 31 December 2020, the Group held deferred tax assets of £1.1 million (2019: nil) which result from deductible temporary differences at the Group's Canadian operations. In accordance with IAS 12 'Income Taxes', deferred tax assets shall be recognised for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilised. The Group has generated positive cash flows and profits from its Canadian operations following the completion of the Gain and Toscana acquisitions and expects to continue to do so in the future. Management has applied judgement in determining the extent to which it is probable that taxable profits will be available based on estimates of future profits, which include estimates of commercial reserves, oil prices, operating and capital expenditure, and decommissioning expenditure. If future taxable profits differ from these estimates, the recoverability of the deferred tax asset could be impacted.

**i3 Energy plc**  
**Notes To the Group Financial Statements**  
**For the Year Ended 31 December 2020**

**4 Business combinations**

The Group completed two business acquisitions during the period. Acquisition costs of £1.5 million relating to the two acquisitions have been recognised in the statement of comprehensive income.

**Gain acquisition**

On 6 July 2020 (“Gain PSA Date”) the Group through its wholly owned subsidiary i3 Energy Canada Limited (“i3 Canada”) entered into a binding purchase and sale agreement to acquire 100% of the petroleum and infrastructure assets from Gain Energy Ltd. (“Gain”) for gross consideration of CAD80 million. On 4 August 2020 i3 Canada entered into a binding purchase and sale agreement to sell the petroleum and infrastructure assets held by Gain which are in Saskatchewan, to Harvard Resources Inc. (“Harvard”) for CAD45 million, which was conditional only on the completion of the Gain acquisition. The assets retained by i3 following the purchase from Gain and sale to Harvard are solely in Alberta and shall be referred to as the “Gain Assets”.

The transaction completed on 3 September 2020 (“Acquisition Date”) at which point i3 obtained control of the Gain Assets, which consist of 242 Gain-operated wells at an average working interest of 78%, 1,044 non-operated wells at an average working interest of 14%, and the associated infrastructure. The acquisition enabled the Group to diversify its portfolio and to obtain cash flow generating assets.

The Gain Assets are an integrated set of activities and assets that is capable of being conducted and managed for the purpose of providing a return, and therefore constitute a business. Accordingly, the transaction has been accounted for in accordance with IFRS 3 ‘Business Combinations’ which requires the assets acquired and liabilities assumed to be recognised on the acquisition date at their fair value. Legal title to the Saskatchewan assets passed directly from Gain to Harvard and the consideration for the Saskatchewan assets was paid directly from Harvard to Gain, and therefore the net acquisition price of CAD35 million has been allocated across the assets acquired and liabilities assumed in Alberta.

The acquisition had an effective date of 1 May 2020 and therefore acquisition price of CAD35 million was (i) reduced by CAD7.2 million for the income generated from all of Gain’s assets between the “Economic Effective Date” of 1 May 2020 and the Acquisition Date; (ii) increased by CAD1.5 million for interest accruing from the Economic Effective Date to the Acquisition Date at Canadian Prime + 2.0% on the Gross consideration; and (iii) increased by CAD1.1 million to compensate Gain for its management of the assets between the Gain PSA Date and the Acquisition Date, resulting in a net consideration of CAD30.4 million (£17.4 million).

The fair value of oil and gas assets is estimated based on pre-tax net present value of PDP reserves as derived from a reserves report by a firm of independent reservoir engineers dated 30 June 2020, adjusted for production in the intervening period, discounted at a rate of 10%. The fair value of the decommissioning provision is estimated based on rates published by the AER. These represent a level 3 valuation in the IFRS 13 fair value hierarchy as they are based on valuation techniques that use inputs which are not based on observable market data. The fair value of the assets acquired and liabilities assumed exceed the consideration by £19.2 million, the gain on bargain purchase. It is likely that the gain on bargain purchase arose due to the oil price recovery between the date the purchase price was agreed and the acquisition date.

The amounts recognised in respect of the identifiable assets acquired and liabilities assumed are as set out in the table below.

	<b>3 September 2020</b>
	<b>£’000</b>
Net consideration to allocate	17,444
Property, plant and equipment – oil and gas assets	93,027
Inventory	233
Decommissioning provisions	(50,887)
Deferred tax liability	(5,680)
Gain on bargain purchase	(19,249)
<b>Total</b>	<b>17,444</b>

The Gain assets contributed £12.1 million revenue (net of royalties) and £0.3 million to the Group’s Gross profit for the period between the acquisition date and the reporting date. If the acquisition of the Gain assets had been completed on the first day of the financial year, Group revenues for the year would have been £34.9 million and Group operating netback would have been £11.8 million. Operating netback is a non-IFRS measure, refer to Appendix B. It is considered impractical to present the impact on profit as if the acquisition had competed on the first day of the financial year as it would require estimation of commercial reserves, future development costs, various judgements over the decommissioning provision, and certain administrative costs, all of which are not readily available to Management, and therefore the impact on operating netback has been presented instead.

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**4 Business combinations - continued**

**Toscana acquisition**

On 30 March 2020 (“Loan Purchase Date”) the Company purchased the rights and interests in Toscana Energy Income Corporation’s (“Toscana”) CAD24.8 million senior debt facility and CAD3.2 million junior debt facility for total consideration of CAD3.0 million and CAD0.4 million, respectively, with the cash consideration paid 50% upfront and 50% in early-2021. The Company also acquired an option to purchase 100% of the issued and outstanding common shares of Toscana, a TSX listed oil and gas company with operations in the WCSB. On 23 June 2020 (“Arrangement Agreement Date”) the Company exercised this option for a total consideration of 4,399,215 ordinary shares of i3. The transaction completed on 30 October 2020 (“Acquisition Date”) following at which point i3 obtained control of Toscana. The acquisition enabled the Group to diversify its portfolio, increase operating cash flow, and provides an interest in a Canadian operator.

The Toscana assets are an integrated set of activities and assets that is capable of being conducted and managed for the purpose of providing a return, and therefore constitute a business. Accordingly, the transaction has been accounted for in accordance with IFRS 3 ‘Business Combinations’ which requires the assets acquired and liabilities assumed to be recognised on the acquisition date at their fair value.

The fair value of oil and gas assets is estimated based on pre-tax net present value of PDP reserves as derived from a reserves report by a firm of independent reservoir engineers dated 30 June 2020, adjusted for production in the intervening period, discounted at a rate of 10%. The fair value of the decommissioning provision is estimated based on rates published by the AER. These represent a level 3 valuation in the IFRS 13 fair value hierarchy as they are based on valuation techniques that use inputs which are not based on observable market data. The carrying amount of the acquired working capital is considered to represent the fair value. The fair value of the assets acquired and liabilities assumed exceed the consideration by £6.0 million, the gain on bargain purchase. It is likely that the gain on bargain purchase arose due to the oil price recovery between the date the purchase price was agreed and the acquisition date.

The fair value of the 4,399,215 ordinary shares issued as part of the consideration paid for Toscana was determined based on the closing trading price of 4.05 pence on 30 October 2020, totalling £178 thousand. This, together with the CAD3.4 million (£2.0 million), results in net consideration of £2.2 million.

The amounts recognised in respect of the identifiable assets acquired and liabilities assumed are as set out in the table below.

	<b>30 October 2020</b>
	<b>£’000</b>
Net consideration to allocate	2,186
Cash and cash equivalents	262
Trade and other receivables	926
Property, plant and equipment – oil and gas assets	21,799
Deposit	683
Deferred tax asset	6,073
Trade and other payables	(3,390)
Decommissioning provisions	(18,205)
Gain on bargain purchase	(5,962)
<b>Total</b>	<b>2,186</b>

The net cash outflow arising on acquisition was £0.7 million, which consists of the £2.0 million cash consideration to acquire Toscana’s debt, less the £0.3 million cash and cash equivalent balances acquired, less the second instalment of £1.0 million which was paid in early 2021.

Toscana contributed £0.9 million revenue (net of royalties) and lost £0.2 million to the Group’s Gross profit for the period between the acquisition date and the reporting date. If the acquisition of Toscana had been completed on the first day of the financial year, Group revenues for the year would have been £17.0 million and Group operating netback would have been £4.9 million. Operating netback is a non-IFRS measure, refer to Appendix B. It is considered impractical to present the impact on profit as if the acquisition had competed on the first day of the financial year as it would require estimation of commercial reserves, future development costs, various judgements over the decommissioning provision, and certain administrative costs, all of which are not readily available to Management, and therefore the impact on operating netback has been presented instead.

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**5 Segmental reporting**

The Chief Operating Decision Maker (CODM) is the Board of Directors. In 2019, they considered that the Group operated in a single segment, that of corporate activities in the UK and oil and gas exploration, appraisal and development on the UKCS, and therefore comparative 2019 information has not been presented. Following the Gain and Toscana acquisitions in 2020, they consider that the Group operates as two segments, as follows:

- UK / Corporate - That of Corporate activities in the UK and oil and gas exploration, appraisal and development on the UKCS.
- Canada – That of oil and gas production in the WCSB.

Such components are identified on the basis of internal reports that the Board reviews regularly.

The following is an analysis of the Group's revenue and results by reportable segment in 2020:

	<b>UK / Corporate</b>	<b>Canada</b>	<b>Total</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Revenue	–	12,991	12,991
Production costs	–	(8,075)	(8,075)
Depreciation and depletion	(5)	(4,849)	(4,854)
<b>Gross (loss) / profit</b>	<b>(5)</b>	<b>67</b>	<b>62</b>
Administrative expenses	(3,335)	(2,420)	(5,755)
Acquisition costs	(989)	(553)	(1,542)
Bargain purchase gain	5,962	19,249	25,211
<b>Operating profit</b>	<b>1,633</b>	<b>16,343</b>	<b>17,976</b>
Finance costs	(7,108)	(260)	(7,368)
<b>(Loss) / profit before tax</b>	<b>(5,475)</b>	<b>16,083</b>	<b>10,608</b>
Tax credit for the year	383	727	1,110
<b>(Loss) / profit for the year</b>	<b>(5,092)</b>	<b>16,810</b>	<b>11,718</b>

The following is an analysis of the Group's assets and liabilities by reportable segment as at 31 December 2020 and the capital expenditure for the year then ended:

	<b>UK / Corporate</b>	<b>Canada</b>	<b>Total</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Total assets	48,932	125,189	174,121
Total liabilities	(24,160)	(76,765)	(100,925)
Capital expenditure – E&E	2,281	–	2,281
Capital expenditure – PP&E	–	697	697

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**6 Revenue**

All revenue is derived from contracts with customers and is comprised of the sale of oil and gas and processing income, net of royalties, as follows:

	<b>2020</b>	2019
	<b>£'000</b>	£'000
Oil and natural gas liquids	7,274	–
Natural Gas	5,978	–
Royalties	(830)	–
<b>Revenue from the sale of oil and gas</b>	<b>12,422</b>	–
Processing income	569	–
<b>Total revenue</b>	<b>12,991</b>	–

All revenue is from the Group's Canadian operations and is recognised at the point in time when title transfers to the purchaser.

**7 Administrative expenses**

	<b>2020</b>	2019
	<b>£'000</b>	£'000
		Restated *
Directors' fees	229	159
Employee costs**	2,879	2,726
Professional fees***	1,207	1,906
Realised FX (gain) / loss	(16)	(268)
Unrealised FX loss	68	28
Other	1,388	766
<b>Total administrative expenses</b>	<b>5,755</b>	5,317

\* The presentation, description, and classification of certain comparative lines have been restated – see Note 2.

\*\* Group staff costs comprised:

	<b>2020</b>	2019
	<b>£'000</b>	£'000
Wages, salaries and benefits	3,293	2,871
Stock-based payments expense - employees	336	1,206
Less: capitalised exploration expenditure	(750)	(1,351)
<b>Charge to the profit or loss</b>	<b>2,879</b>	2,726

i3 Energy plc had no staff during the year ended 31 December 2020 (2019 - Nil) and therefore no payments were made. Director remuneration is disclosed in note 10.

The average number of persons employed by the Group, including Executive Directors, was:

	<b>2020 Number</b>	2019 Number
Average number of persons employed		
Operations	13	8
Corporate and administration	7	4
<b>Total</b>	<b>20</b>	12

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**7 Administrative expenses - continued**

\*\*\* Included within professional fees are fees payable to the Company's auditor and its associates for the following:

	2020 £'000	2019 £'000
<i>Audit services</i>		
The audit of the Company's annual accounts	80	37
The audit of the Company's subsidiaries	–	–
<b>Total audit fees</b>	<b>80</b>	<b>37</b>
Reporting accountant work in relation to 2020 admission documents	170	–
<b>Total</b>	<b>250</b>	<b>37</b>

**8 Finance costs**

	2020 £'000	2019 £'000 Restated *
Accretion of loan notes	2,355	2,251
Interest expense on loan notes	2,487	1,372
Stock-based compensation – warrants (note 19)	2,198	1,911
Unwinding of discount on decommissioning provision (note 17)	214	–
Bank charges and interest on creditors	114	–
<b>Total finance costs</b>	<b>7,368</b>	<b>5,534</b>

\* The presentation, description, and classification of certain comparative lines have been restated – see Note 2.

**9 Taxation**

**Taxation credit**

The below table reconciles the tax charge for the year to the expected tax charge based on the result for the year and the corporation tax rate.

	2020 £'000	2019 £'000
Profit (loss) before income tax	10,608	(10,851)
Rate of Corporate Tax	40%	40%
Expected tax charge / (credit)	4,243	(4,340)
Effects of:		
Interest and other not deductible for SCT	491	363
Permanent differences	(4,415)	1,372
Foreign tax rate difference	(3,747)	–
Derecognition of deferred tax asset	2,701	2,570
R&D tax credit received	(383)	35
<b>Total income tax (credit)</b>	<b>(1,110)</b>	<b>–</b>

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**9 Taxation - continued**

	2020	2019
	£'000	£'000
Of which:		
Current tax – prior years	(383)	–
Deferred tax – current year	(727)	–
<b>Total income tax (credit)</b>	<b>(1,110)</b>	<b>–</b>

During the year the Group received £383 thousand in R&D tax refunds in the UK in respect of the 2017 and 2018 fiscal years. The difference on foreign tax rate results from the 23% rate of corporate taxation at its Canadian subsidiary.

**Deferred tax**

The components of the net deferred tax asset and the movements during the year is summarised as follows:

	At 31 December 2019 £'000	Acquired during the year £'000	Recognised in income £'000	FX movement £'000	At 31 December 2020 £'000
<b>UK:</b>					
<i>Deferred tax assets:</i>					
Losses	23,467	–	2,297	–	25,764
Valuation allowance	(4,846)	–	(1,392)	–	(6,238)
<i>Deferred tax liabilities:</i>					
PP&E	(18,621)	–	(905)	–	(19,526)
Net deferred tax asset	–	–	–	–	–
<b>Canada:</b>					
<i>Deferred tax assets:</i>					
Decommissioning provision	–	15,891	(535)	4	15,360
Losses	–	5,845	(177)	(43)	5,625
Other	–	38	120	(1)	157
Valuation allowance	–	(7,974)	–	62	(7,912)
<i>Deferred tax liabilities:</i>					
PP&E	–	(13,407)	1,319	(90)	(12,178)
Net deferred tax asset	–	393	727	(68)	1,052
<b>Net deferred tax asset</b>	<b>–</b>	<b>393</b>	<b>727</b>	<b>(68)</b>	<b>1,052</b>

A deferred tax asset has not been recognised in respect of tax losses and allowances in the UK due to uncertainty over the availability of future taxable profits in the UK to offset these losses against.

The Group recognised a net deferred tax asset through the Gain and Toscana acquisitions of £393 thousand, and a deferred tax recovery of £727 thousand for changes in net deductible temporary differences in the year. The deferred tax asset has been recognised in Canada to the extent that the Group anticipates probable future taxable profits to against which the assets can be utilised.

The Group's estimated tax pools are summarised in the following table. The non-capital tax loss pools in Canada expire over a period of 20 years. All other tax pools do not expire.

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**9 Taxation - continued**

	<b>31 December 2020</b>	31 December 2019
	<b>£'000</b>	<b>£'000</b>
<b>UK:</b>		
Taxable losses	20,585	14,942
Mineral extraction allowances	48,809	46,528
	<b>69,394</b>	<b>61,470</b>
<b>Canada:</b>		
Canadian exploration expense	3,068	–
Canadian development expense	4,698	–
Canadian oil and gas property expense	39,311	–
Undepreciated capital cost	8,383	–
Non-capital losses	24,456	–
Other	684	–
	<b>80,600</b>	<b>–</b>
<b>Total</b>	<b>80,600</b>	<b>–</b>

**10 Directors' remuneration**

	Salary / Fees	Bonus	Share based payments	Total
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
<b>2020</b>				
<b>Executive Directors</b>				
Majid Shafiq	313	389	30	732
Graham Heath	244	329	19	592
<b>Non-Executive Directors</b>				
David Knox	22	–	–	22
Neill Carson	57	–	6	63
Richard Ames	54	–	6	60
Linda Beal	70	–	–	70
John Festival	6	–	–	6
	<b>766</b>	<b>718</b>	<b>61</b>	<b>1,545</b>
<b>Total</b>	<b>766</b>	<b>718</b>	<b>61</b>	<b>1,545</b>
<b>2019</b>				
<b>Executive Directors</b>				
Majid Shafiq	271	–	319	590
Graham Heath	201	163	146	510
Neill Carson	–	110	–	110
<b>Non-Executive Directors</b>				
David Knox	60	–	–	60
Neill Carson	35	–	30	65
Richard Ames	45	–	30	75
Linda Beal	15	–	–	15
	<b>627</b>	<b>273</b>	<b>525</b>	<b>1,425</b>
<b>Total</b>	<b>627</b>	<b>273</b>	<b>525</b>	<b>1,425</b>

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**10 Directors' remuneration - continued**

During the year the Company contributed £3 thousand to i3's CEO's pension scheme (2019 - £2 thousand).

The total amount of Directors' fees to the Non-Executive Directors, in 2020, in the amount of £59 thousand (2018 - £116 thousand) had been accrued. The accrued Non-Executive Directors' fees were paid 5 January 2021.

**11 Earnings per share**

From continuing operations

Basic earnings or loss per share is calculated as profit/(loss) for the period, adjusted to exclude any costs of servicing equity (other than dividends), divided by the weighted average number of ordinary shares, adjusted for any bonus element.

Diluted earnings or loss per share amounts are calculated by dividing losses or profits for the period attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year, plus the weighted average number of shares that would be issued on the conversion of dilutive potential ordinary shares into ordinary shares.

The calculation of the basic and diluted earnings per share is based on the following data:

	<b>Year Ended</b>	<b>Year Ended</b>
	<b>31 December 2020</b>	<b>31 December 2019</b>
<b>Earnings</b>		
Earnings (loss) for the purposes of basic and diluted earnings per share being net loss attributable to owners of i3 Energy (£'000)	11,718	(10,851)
<b>Weighted average number of shares</b>		
Weighted average number of Ordinary Shares – basic	309,889,077	80,869,438
Effect of dilutive potential ordinary shares:		
Share options	2,399,909	–
Warrants	26,700,708	–
	338,989,694	80,869,438
Weighted average number of Ordinary Shares – diluted		
Basic earnings / (loss) per share (pence)	3.78	(13.42)
Diluted earnings / (loss) per share (pence)	3.46	(13.42)

The Share options and Warrants were anti-dilutive in 2019 as the Group incurred a loss. Prior to their repricing on 28 October 2020 and 23 June 2020 (note 20), respectively, these instruments were anti-dilutive as their exercise prices exceeded the average market price of the Ordinary Shares over this period. The Share options and Warrants were dilutive following their re-pricing and their impact is presented in the table above.

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**12 Property, plant, and equipment**

	Oil and gas assets	Right of use assets	Other fixed assets	Total
<i>Cost</i>				
As at 1 January 2019	–	–	19	19
Additions	–	–	3	3
<b>As at 31 December 2019</b>	<b>–</b>	<b>–</b>	<b>22</b>	<b>22</b>
Acquisitions	114,826	–	–	114,826
Additions	697	110	–	807
Changes to decommissioning estimates	(2,310)	–	–	(2,310)
Decommissioning settlements under SRP (note 17)	(104)	–	–	(104)
Exchange movement	84	(2)	–	82
<b>As at 31 December 2020</b>	<b>113,193</b>	<b>108</b>	<b>22</b>	<b>113,323</b>
<i>Accumulated depreciation</i>				
As at 1 January 2019	–	–	(5)	(5)
Charge for the year	–	–	(9)	(9)
<b>As at 31 December 2019</b>	<b>–</b>	<b>–</b>	<b>(14)</b>	<b>(14)</b>
Charge for the year	(4,843)	(6)	(5)	(4,854)
Exchange movement	54	–	–	54
<b>As at 31 December 2020</b>	<b>(4,789)</b>	<b>(6)</b>	<b>(19)</b>	<b>(4,814)</b>
Carrying amount at 31 December 2019	–	–	8	8
<b>Carrying amount at 31 December 2020</b>	<b>108,404</b>	<b>102</b>	<b>3</b>	<b>108,509</b>

Right of use assets consist of certain field vehicles whose leases commenced in September 2020.

**13 Exploration and evaluation assets (Intangible)**

	Year Ended 31 December 2020 £'000	Year Ended 31 December 2019 £'000
As at 1 January	46,528	5,707
Additions	2,281	40,821
<b>As at 31 December</b>	<b>48,809</b>	<b>46,528</b>

The Directors have considered the carrying value of the exploration and evaluation assets as at 31 December 2020 and concluded that no indicators of impairment arose during the period. In reaching this conclusion, the Directors has given particular attention to the relinquishment of UKCS Licence P.1987 which reached the end of its two-year second term on 31 December 2020. Licence P.1987 encompasses UK Block 13/23d which contains contingent resources for the Group's Liberator asset, which have been evaluated as sub-commercial by i3 and in an 'independent competent person' report and as such do not represent a viable commercial development. i3 may choose to re-apply for Licence P.1987 licence in the future if justified by its appraisal of the Liberator West / Minos High prospective areas and/or the Serenity discovery. The relinquishment will result in a significant saving in licence fees whilst i3 progresses its appraisal of resources on its adjoining P.2358 Licence.

This relinquishment has no impact on Licence P.2358, which commenced its four-year second term on 30th September 2020 and contains the vast majority of the resources and potential reserves in the Company's UK acreage. Licence P.2358 includes the Serenity discovery and the Liberator West and Minos High prospective areas, which will be the focus of plans for appraisal and exploration drilling.

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**14 Trade and other receivables**

	<b>31 December 2020</b>	31 December 2019
	<b>£'000</b>	<b>£'000</b>
Trade receivables	6,295	–
VAT receivables	46	290
JV receivables	864	–
Prepayments & other receivables	1,526	15
	<b>8,731</b>	<b>305</b>
<b>Total trade and other receivables</b>	<b>8,731</b>	<b>305</b>

Other receivables are all due within one year.

The fair value of other receivables is the same as their carrying values as stated above and they do not contain any impaired assets.

The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivable mentioned above. The Group does not hold any collateral as security.

**15 Trade and other payables**

	<b>31 December 2020</b>	31 December 2019
	<b>£'000</b>	<b>£'000</b>
Trade creditors	7,780	12,024
Accruals	5,146	6,181
JV Payables	230	–
	<b>13,156</b>	<b>18,205</b>
<b>Total trade and other payables</b>	<b>13,156</b>	<b>18,205</b>

The average credit period taken for trade purchases is 30 days. No interest is charged on the trade payables. The carrying values of trade and other payables are considered to be a reasonable approximation of the fair value and are considered by the Directors as payable within one year.

**Non-current accounts payable**

On 2 July 2019 the Group agreed with a supplier that £3.0 million of oilfield service and oilfield equipment contract payments will not become payable until such time as i3 has received its first sales revenues from Liberator Phase I. This payable has been recorded as a non-current accounts payable. On 17 May 2021 the terms were restructured, see note 23.

**16 Borrowings**

**H1-2019 loan note facility**

In May 2019, the Company completed a £22 million H1-2019 loan note facility (“H1-2019 LN”). The H1-2019 LNs have a term of 4 years, maturing on 31 May 2023 and bearing interest, payable on a quarterly basis at the Company’s option (i) in cash at a rate of 8% per annum, or (ii) in kind (at i3’s option) at a rate of 11% per annum by the issuance of additional H1-2019 LNs.

The noteholders were granted warrants (“H1-2019 LN Warrants”) in the notional amount of £1 for each £1 of loan notes issued, with H1-2019 Warrants being issued proportionately across three series. The H1-2019 LN Warrants vested on the issue date and expire 4 years thereafter and can be exercised through either/or a combination of a cash payment and/or surrender of H1-2019 LNs plus accrued interest equal to the aggregate notional amount of the H1-2019 LN Warrants being exercised. Each H1-2019 LN Warrant gives the holder the right to convert the notional amount into such number of shares as is derived by dividing the notional amount by the exercise price.

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**16 Borrowings - continued**

	Notional amount of warrants (£)	Exercise price upon issuance (£/share)	Shares to be issued upon exercise of warrants	Share price at issuance (£)	Time to maturity (years)	Value (£/share)
Tranche 1	7,333,333	0.4070	18,018,018	0.39	4	0.2557
Tranche 2	7,333,333	0.4810	15,246,015	0.39	4	0.2435
Tranche 3	7,333,333	0.5550	13,213,213	0.39	4	0.2313

Total fair value of the Tranche 1, Tranche 2 and Tranche 3 warrants on issuance was £11,375,184 and was bifurcated from the debt contract and classified as equity.

The H1-2019 LNs are comprised of the following components: the debt contract, the conversion feature, the interest rate payment option and the early conversion feature (at i3's option). At inception the debt component was recorded at an estimated fair value of £10,624,816. The debt balance is unwound using the effective interest rate method to the principal value at maturity with a corresponding non-cash accretion charge to earnings.

On the 23 June 2020 the Company amended the 30 April 2020 Development Funding Long-stop Date (previously amended on 8 November 2019 when the Majority Noteholders of the Company's secured loan notes agreed to extend the date by which the Company must either enter into a reserves based lending facility or find an alternative means of funding to achieve first oil from the Liberator field, to 30 April 2020). As the Company was not in a position to enter into such a facility by 30 April 2020, the Company and the Majority Noteholders have come to an agreement to waive this condition in return for certain amendments to the May 2019 Loan Note Instrument and the associated Warrant Instruments.

The Loan Note Instrument Amendments are as follows:

The obligation to enter into a development facility for Liberator by a certain date has been removed. A new Corporate Development Long-stop Date had been set for 30 September 2020 prior to which i3 has to achieve one of the following Corporate Development Longstop Conditions:

- Secure firm irrevocable commitments for a minimum £15mm of unsecured or fully subordinated financing, subject only to closing mechanics; or
- Agree a farm-out and/or funding term sheet, subject only to legal documentation to fund the drilling of a least one appraisal well on Serenity during 2020 or 2021; or
- Execute an acquisition agreement for at least 2500 boepd of production net to i3.

In addition, the Company has an obligation to achieve net corporate production at or above 5000 boepd by 30 April 2021. These requirements were met with the completion of the Gain acquisition on 3 September 2020.

The Loan Note Instrument amendments include the requirement that the currently outstanding i3 management options will be cancelled, and replacement options will be issued to i3 staff and directors which replicate the terms of the adjusted Loan Note warrants (the "New Options") in relation to the exercise price, to seek alignment between the Noteholders and management (note 20).

The Warrant Instrument Amendments are as follows:

All warrants associated with the Loan Notes will have their strike prices reset to the nominal value of i3 shares (£0.0001/share). The Company calculated the difference in the fair value of the unmodified and modified warrants at the modification date of June 23, 2020 resulting in an additional expense of £2,199 thousand recognized in share-based payment expense (note 19).

The Loan Note Instrument Amendments is a related-party transaction under Rule 13 of the AIM Rules for Companies as a result of the Company's largest shareholder, Bybrook Capital LLP (owning 13.87% of the Company's issued shares) being a Loan Note holder. In addition, the amendments to the managements options is a related-party transaction for the purposes of Rule 13 of the AIM Rules for Companies. In relation to these transactions, Linda Beal is considered to be independent for the purposes of AIM Rule 13. Having consulted with WH Ireland Limited, the Company's Nominated Advisor ("Nomad"), the independent director considers that the terms of the related-party transactions are fair and reasonable insofar as shareholders are concerned.

The H1-2019 LNs are redeemable before the maturity date and the holders are secured against the Company's assets. The Company may repay all or part of the H1-2019 LNs within the first 12 months at 116% of par and at par plus accrued interest thereafter. The fair value of the repayment option is nil at 30 June 2020.

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**16 Borrowings - continued**

Interest expense and accretion expense to 31 December 2020 was £2,486 and £2,355 respectively.

**Borrowings reconciliation**

	<b>Convertible loan notes ("CLNs") £'000</b>	<b>H1-2019 LN £'000</b>	<b>Leases £'000</b>	<b>Total £'000</b>
At 1 January 2019	592	–	–	592
Issued	–	22,000	–	22,000
H1-2019 LN Warrants	–	(11,375)	–	(11,375)
Increase through interest	(152)	1,227	–	1,075
Accretion expense	–	1,194	–	1,194
Conversion of CLNs	(65)	–	–	(65)
Repayment of CLNs	(368)	–	–	(368)
Foreign exchange	(7)	–	–	(7)
<b>At 31 December 2019</b>	<b>–</b>	<b>13,046</b>	<b>–</b>	<b>13,046</b>
New leases	–	–	110	110
Increase through interest	–	2,486	1	2,487
Accretion expense	–	2,355	–	2,355
Lease payments	–	–	(10)	(10)
Exchange movement	–	–	(2)	(2)
<b>At 31 December 2020</b>	<b>–</b>	<b>17,887</b>	<b>99</b>	<b>17,986</b>

	<b>Convertible loan notes ("CLNs") £'000</b>	<b>H1-2019 LN £'000</b>	<b>Leases £'000</b>	<b>Total £'000</b>
Of which:				
Current	–	–	28	28
Non-current	–	17,887	71	17,958
<b>At 31 December 2020</b>	<b>–</b>	<b>17,887</b>	<b>99</b>	<b>17,986</b>

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**17 Decommissioning provision**

	<b>Year Ended 31 December 2020 £'000</b>
At 1 January	
Liabilities assumed through business combinations (note 4)	69,092
Liabilities settled	(109)
Liabilities settled under SRP	(104)
Change in estimates	(2,310)
Unwinding of discount (note 8)	214
	66,783
<b>At 31 December</b>	<b>66,783</b>
	<b>Year Ended 31 December 2020 £'000</b>
Of which:	
Current	1,234
Non-current	65,549
	66,783
<b>At 31 December</b>	<b>66,783</b>

The decommissioning provision relates to liabilities assumed through the Gain and Toscana acquisitions for the abandonment, reclamation, and remediation of wells and facilities. The wells and facilities are expected to be decommissioned at the end of their useful life, which ranges from 2021 to 2071. Estimated costs have been inflated at a rate of 1.0% per annum and discounted at a rate of 1.21% per annum. The change in estimate is largely due to increases in market interest rates from the date of the acquisitions, which was 1.04% at the time of the Gain acquisition and 1.25% at the time of the Toscana acquisition. Abandonment costs are forecast to occur between 1 and 50 years.

Liabilities settled reflect work undertaken in the year. This includes wells decommissioned under Alberta's Site Rehabilitation Program ("SRP") whereby certain costs of settling the Group's liabilities were borne by the Government of Canada. Where liabilities were settled through the SRP a corresponding decrease to the decommissioning asset was recorded.

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**18 Authorised, issued and called-up share capital**

	Issuance date	Ordinary shares	Deferred shares	Nominal value per Share	Ordinary shares	Deferred shares	Share premium before share issuance costs	Share issuance costs	Share premium after Share issuance costs
		Shares	Shares	£	£'000	£'000	£'000	£'000	£'000
As at 31 December 2018		41,017,438	5,000	–	4	50	9,538	323	9,215
Issued at 37 pence/share	18 Mar 19	11,005,527	–	0.0001	1	–	4,071	266	3,805
Issued at 37 pence/share	01 Apr 19	32,237,716	–	0.0001	3	–	11,925	704	11,221
Issued at 37 pence/share	04 Apr 19	2,131,538	–	0.0001	–	–	788	–	788
Issued at 37 pence/share	05 Apr 19	983,059	–	0.0001	–	–	364	–	364
Issued at 37 pence/share	31 May 19	5,405,405	–	0.0001	1	–	1,999	100	1,899
Issued at 43 pence/share	31 May 19	653,002	–	0.0001	–	–	281	–	281
Issued at 35 pence/share	06 Dec 19	14,285,715	–	0.0001	2	–	4,999	–	4,999
As at 31 December 2019		107,719,400	5,000	–	11	50	33,965	1,393	32,572
Warrants exercised at 0.01 pence/share	24 Aug 20	6,788,945	–	0.0001	1	–	–	–	1,661
Issued at 5 pence/share	28 Aug 20	581,147,255	–	0.0001	58	–	28,999	1,806	27,194
Issued for Toscana acquisition (note 4)	30 Oct 20	4,399,215	–	0.0001	–	–	178	–	178
		<b>700,054,815</b>	<b>5,000</b>	<b>–</b>	<b>70</b>	<b>50</b>	<b>63,142</b>	<b>3,199</b>	<b>61,605</b>

The ordinary shares confer the right to vote at general meetings of the Company, to a repayment of capital in the event of liquidation or winding up and certain other rights as set out in the Company's articles of association.

The deferred shares do not confer any voting rights at general meetings of the Company and do confer a right to a repayment of capital in the event of liquidation or winding up, they do not confer any dividend rights or any of redemption.

No dividends were proposed. (2019 - Nil).

**19 Stock-based payments**

During the year the Group had share based payment expense of £2,534 thousand (2019: £3,117 thousand).

**Employee and NED Share Options**

During the year the Group had share based payment expense relating to the issuance of share options of £335 thousand (2019: £1,206 thousand). Details on the employee and NED share options outstanding during the period are as follows:

	Number of options	Weighted average exercise price (pence)	Weighted average contractual life
At 1 January 2019	4,853,853	59.37	9.19
Granted during the year	7,398,160	37.28	10.00
At 31 December 2019	12,252,013	46.03	8.91
Cancelled – 28 October 2020	(12,252,013)	46.06	8.09
Issued – 28 October 2020	12,128,955	0.01	4.00
Issued – 3 December 2020	4,028,659	0.01	4.00
<b>At 31 December 2020</b>	<b>16,157,614</b>	<b>0.01</b>	<b>3.85</b>

On 28 October 2020, the Group cancelled all 12,252,013 employee and NED share options ("Old Options") and replaced them with 12,128,955 newly issued options ("New Options") which replicated the terms of the modified 1H-2019 LN warrants. The Old Options were issued between 2017 and 2019 and had exercise prices ranging from 21.50 pence to 63.50 pence and a term of 10 years. The New Options have an exercise price equal to the nominal value of i3 shares of 0.01 pence, a term of 4 years, and certain non-market based vesting conditions. The incremental fair value of £130 thousand was expensed in 2020 as all vesting conditions had been achieved. The fair values were calculated using the Black Scholes model with inputs for stock price of 4.30 pence, exercise price of 0.01 pence, time to maturity of 4 years, volatility of 116%, and the Risk-Free Interest rate of 0.273%.

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**19 Stock-based payments - continued**

On 3 December 2020, the Group issued 4,028,659 employee share options on terms which replicated the New Options described above. The fair value of £205 thousand was expensed in 2020 as all vesting conditions had been achieved. The fair value was calculated using the Black Scholes model with inputs for stock price of 6.10 pence, exercise price of 0.01 pence, time to maturity of 2.94 years, volatility of 120%, and the Risk-Free Interest rate of 0.291%.

All 16,157,614 outstanding employee share options as at 31 December 2020 were fully vested and exercisable.

**Warrants**

During the year the Group had share based payment expense relating to the modification and issuance of warrants of £2,198 thousand (2019: £1,911 thousand). Details on the warrants outstanding during the period are as follows:

	Number of warrants	Weighted average exercise price (pence)	Weighted average contractual life
At 1 January 2019	–	–	–
Granted during the year	61,002,357	46.98	3.52
At 31 December 2019	61,002,357	46.98	3.04
Modified – 23 June 2020	(55,981,044)	46.09	2.67
Modified – 23 June 2020	55,981,044	0.01	2.67
Exercised – 24 August 2020	(6,788,945)	0.01	2.77
<b>At 31 December 2020</b>	<b>54,213,412</b>	<b>5.27</b>	<b>1.98</b>

On 23 June 2020, the Group modified all 46,477,246 H1-2019 LN Warrants and 9,503,798 work fee warrants (“Old Warrants”) to reset their strike price equal to the nominal value of i3 shares 0.01 pence. The Old Warrants were split across 3 tranches with exercise prices ranging from 40.70 pence to 55.50 pence (see note 16), and the work fee warrants had an exercise of 40 pence. The incremental fair value of £2,198 thousand was expensed in 2020. The incremental fair values were calculated using the Black Scholes model with inputs for stock price of 6.10 pence, exercise price of 0.01 pence, time to maturity of ranging from 1.38 to 2.94 years, volatility of 120%, and the Risk-Free Interest rate of 0.291%.

On 24 August 2020, 6,788,945 warrants were exercised, and £1.7 million was reclassified from the Warrants-LN to the Share premium accounts within equity.

**EMI Options**

The Company operates an Employee Management Incentive (EMI) share option scheme. Grants were made on 14th April 2016 and 6th December 2016. The scheme is based on eligible employees being granted EMI options. The right to exercise the option is at the employee’s discretion for a ten-year period from the date of issuance. 500,000 options were exercisable at both 31 December 2019 and 2020 at a price equal to £0.11 per share respectively. If the options remain unexercised after a period of ten years from the date of grant the options expire. Employees who leave i3 Energy have 60 days to exercise the Options prior to them being forfeited. The options outstanding at 31 December 2020 have a weighted average exercise price of £0.11 and a weighted average remaining contractual life of 5.92 years.

**20 Related party transactions**

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note.

**Remuneration of Key Management Personnel**

Directors of the Group are considered to be Key Management Personnel. The remuneration of the Directors is set out in note 10.

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note.

**Ultimate parent**

There is no ultimate controlling party of the Group.

**i3 Energy plc**  
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**21 Financial instruments and capital risk management**

All financial instruments are carried at amortised cost.

**Financial Risk Management**

**Financial Risk Factors**

The Group's activities expose it to a variety of financial risks; market risk (including foreign currency risk and price risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

Risk management is carried out by the Board of Directors under policies approved at Board meetings. The Board frequently discusses principles for overall risk management including policies for specific areas such as foreign exchange.

**a Market Risk**

**i Foreign Exchange Risk**

The Group is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the UK pound sterling and the Canadian dollar and US Dollar. Foreign exchange risk arises from recognised monetary assets and liabilities (USD and CAD bank accounts) where they may be denominated in a currency that is not the local functional currency. The Group mitigates its foreign exchange exposure by holding monetary assets and liabilities primarily in the local functional currency. All of the monetary assets and liabilities held by the Group's Canadian operations were held in CAD, the functional currency, and therefore there is no foreign exchange exposure in the Canadian operations. The UK operations held net monetary liabilities denominated in CAD of £977 thousand. A 10% strengthening of GBP against CAD would have increased profit after tax by £89 thousand, and a 10% weakening of GBP to CAD would have decreased profit after tax by £109 thousand. The UK operations held net monetary liabilities denominated in USD of £2,181 thousand. A 10% strengthening of GBP against USD would have increased profit after tax by £197 thousand, and a 10% weakening of GBP to USD would have decreased profit after tax by £241 thousand. The impact on equity is the same as the impact on profit after tax.

The Group is also exposed to exchange differences on translation of its foreign operations in Canada, which resulted in a loss of £185 thousand for the year ended 31 December 2020. A 10% strengthening of GBP against CAD as at 31 December 2020 would have resulted in a loss on translation of £4,522 thousand, and a 10% weakening of GBP to CAD would have resulted in a gain of £5,201 thousand. Profit after tax would not be impacted.

**b Credit Risk**

Credit risk arises from cash and cash equivalents and trade receivables from the sale of hydrocarbons. It is Group policy to assess the credit risk of new customers.

The Group considers the credit ratings of banks in which it holds funds in order to reduce exposure to credit risk. The Group will only keep its holdings of cash with institutions which have a minimum credit rating of 'A'. The Group sells hydrocarbons to reputable purchasers and are settled the month following their sale. Long-term deposits for decommissioning provisions are lodged with government bodies. The carrying value of cash and cash equivalents and trade and other receivables represents the Group's maximum exposure to credit risk at year end.

The Group considers that it is not exposed to major concentrations of credit risk.

The Group holds cash as a liquid resource to fund its obligations. The Group's cash balances are held in Sterling Canadian Dollar, and US Dollar. The Group's strategy for managing cash is to maximise interest income whilst ensuring its availability to match the profile of the Group's expenditure. This is achieved by regular monitoring of interest rates and monthly review of expenditure forecasts.

**c Liquidity Risk**

The Group has relies upon debt and equity funding, and cash flow from its Canadian operations to finance operations. The Directors are confident that adequate funding will be forthcoming with which to finance operations. Controls over expenditure are carefully managed.

The Group ensures that its liquidity is maintained by a management process which includes projecting cash flows and considering the level of liquid assets in relation thereto, monitoring Balance Sheet liquidity and maintaining funding sources and back-up facilities.

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**21 Financial instruments and capital risk management - continued**

The Group's expected cash flows for its financial liabilities are presented in the following table and includes undiscounted principal and expected interest payments.

	6 Months £'000	6-12 months £'000	1-2 years £'000	2+ years £'000	Total £'000
Trade and other payables	13,155	–	–	–	13,155
Non-current payable *	–	–	–	3,000	3,000
H1 2019 LNs	–	–	–	22,000	22,000
H1 2019 PIK interest **	–	–	–	9,680	9,680
Leases	15	15	17	–	47
<b>Total</b>	<b>13,170</b>	<b>15</b>	<b>17</b>	<b>34,680</b>	<b>47,882</b>

\* The non-current payable will not become payable until such time as i3 has received its first sales revenues from Liberator Phase I (see Note 15). As there is no fixed term and revenue is not expected from Liberator Phase I for at least 2 years, this has been categorised as 2+ years.

\*\*The H1 2019 LNs have an early redemption option and the interest can be paid in either cash or in kind (see note 16). The table assumes no early redemption and that all interest is paid in kind at the maturity.

**d Commodity Price Risk**

Commodity price risk in the Group primarily arises from price fluctuations in markets for the Group's oil and gas products. The Group currently does not actively managed commodity price risk through entering into fixed price contracts or other hedging activities. This Group continually reviews its hedging strategy and may take measures to mitigate commodity price risk in the future. The Group entered into certain commodity hedge contracts in 2021, see note 23.

**Capital Risk Management**

The Group's objectives when managing capital are to safeguard the Group's ability to position as a going concern and to continue its development and production activities. The capital structure of the Group consists of borrowings and leases of £17,986 thousand at 31 December 2020 (2019 - £13,046 thousand) (note 16), has capital, defined as the total equity and reserves of the Group of £79,888 (2019 - £31,660) and cash and equivalents of £6,178 (2019 - £19,070).

The group monitors its level of cash resources available against future planned exploration and evaluation activities and may issue new shares in order to raise further funds from time to time.

**22 Commitments**

	1 year £'000	1-2 years £'000	3-4 years £'000	5+ years £'000	Total £'000
Operating	57	11	–	–	68
Transportation	1,605	1,099	340	121	3,165
<b>Total</b>	<b>1,662</b>	<b>1,110</b>	<b>340</b>	<b>121</b>	<b>3,233</b>

Operating commitments relate to offices leases in the UK that expires in April 2022 and a field office lease in Canada that expires in July 2021. Transportation commitments relate to take-or-pay pipeline capacity in Alberta.

In addition to the above, as at 31 December 2020, the Company had cancellation exposure to certain long-lead items for its Liberator development totalling £3,960 thousand (2019 - £3,960 thousand).

**23 Events after the reporting period**

On 4 January 2021 the Company announced that it had relinquished UKCS licence P.1987 as it was at the end of its two-year term and i3 had determined the contingent resources associated with the licence were sub-commercial on a stand-alone basis. i3 may re-apply for the licence in the future if it is justified following the appraisal of the prospective Liberator West and/or Minos High areas, or after further drilling at its Serenity discovery. The relinquishment results in a significant savings in licence fees and has no impact on the Company's P.2358 licence which contains the vast majority of i3's resource potential in the UK North Sea.

Also on 4 January, the Company announced that it had replaced one of its brokers, Mirabaud Securities, with Tennyson Securities, the new home of the oil and gas corporate finance, equity research and sales team that departed Mirabaud Securities.

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**23 Events after the reporting period - continued**

On 10 January, the Company issued options over a total of 13,166,358 ordinary shares to key staff that joined its Canadian subsidiary, i3 Energy Canada Ltd., following the acquisition of Gain's oil & gas assets. The options were issued in accordance with the rules of the Company's Employee Share Option Plan at an exercise price of £0.061 per share, the closing price on 8 January 2021. One-third of the options vested immediately, with a further one-third vesting in July 2021 if production exits at or above 9,000 boepd, and 100 per cent will vest if there is an addition of 5,000 boepd or, alternatively, 25 MMboe 2P reserves. The options will otherwise fully vest on the third anniversary.

On 10 January, the Company also issued options over a total of 75,184,252 ordinary shares as described in the Gain-related Readmission document released on 11 August 2020. The options were issued in accordance with the rules of the Company's Employee Share Option Plan at an exercise price of £0.05 per share. Options issued to employees of i3 Canada contain the same vesting conditions as the £0.061 options described in the paragraph above. Of the options issued to employees of i3 North Sea Limited, one-third of the options vested immediately, with a further one-third vesting at the spud of the next Serenity / Liberator appraisal well, and 100 per cent will vest upon a third-party reserve auditor attributing 25 MMbbls 2P post drilling of a Serenity / Liberator appraisal well. The options will otherwise fully vest on the third anniversary. Of the options issued to the executive and non-executive directors and one corporate employee, one-third of the options vested immediately, with a further one-third vesting upon the earlier of spud of the next Serenity or Liberator appraisal well; and July 2021 production exits being at or above 9,000 boepd, and 100% will vest upon the earlier of a third-party reserve auditor attributing 25 MMbbls 2P post drilling of a Serenity or Liberator appraisal well and the addition of 5,000 boepd or 25 MMboe 2P reserves. The options will otherwise fully vest on the third anniversary.

On 23 February, the Company announced that production between November 2020 and January 2021 had remained predictably stable at 9,150 boepd (41% liquids), with expected 2021 net operating income ("NOI" = revenue minus royalties, opex, transportation and processing) of CAD35 million (USD27.6 million). i3 stated on 5 May that Q1 2021 production had been 8,856 boepd (41% liquids), outperforming expectations, and updating its 2021 NOI forecast to CAD38 million (USD31 million).

Also on 23 February, i3 announced that in December 2020, it had completed an 80-hour flow-test on a horizontal Falher formation well located on its Noel acreage in Northeast British Columbia, Canada. The flow-test ran for a sustained period at 4,200 mcf/d (700 boepd) on a 1/4" choke. The Company has reiterated as recently as 5 May that the Noel well is expected to be brought on production at approximately 500 boepd during the second quarter of 2021, following tie-in.

On 5 May, the Company announced that during February and early March, the following oil and propane hedges were executed:

Commodity	Period		bbl/d	Type	CAD/bbl
Crude	1/Apr/21	31/Dec/21	200	SWAP	\$73.70
Crude	1/Apr/21	31/Dec/21	200	SWAP	\$75.20
Crude	1/Mar/21	31/Dec/21	350	SWAP	\$64.50
Propane	1/Apr/21	31/Dec/21	200	SWAP	\$32.45

During March and April, a number of natural gas swaps were executed for the period between 1 June to 31 October 2021, totalling volumes of 21.4 MMscfd at an average price of CAD2.83/mcf.

In May the Company provided an update on its continued expansion into the prolific Clearwater play in Alberta, Canada. In February and March of 2021, i3 took advantage of winter access to re-enter three suspended gas wells in search of oil on the 148 km<sup>2</sup> of historically gas-focused Clearwater acreage it had acquired as part of its 2020 purchase of Toscana. Encouragingly, oil samples were recovered from multiple intervals in two of the three wells, and i3 has commenced planning for an appraisal and development drilling programme to be implemented during the winter drill window in either Q4 2021 or Q1 2022. Further, the Company acquired a 15-year lease on 18 km<sup>2</sup> of land in the emerging Cadotte area through an Alberta Crown Land sale for under USD300k, and also entered a farm-in agreement that could earn it up to net 29 km<sup>2</sup> of land (for its 50% working interest) through the drilling of up to 9 wells at a net cost of USD7 million. Each well is expected to have a payout between one and two years and an initial production rate of approximately 150 bopd following start-up. The first farmout well is expected to be spud in Q2 2021.

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**23 Events after the reporting period - continued**

On 17 May, i3 announced that it had successfully restructured legacy contracts and agreements for equipment, oil field services, and warrants with Baker Hughes, a GE Company, and GE Oil & Gas Limited (collectively referred to as “BHGE” hereafter). In summary, the remainder of a £5.8 million contract for subsea trees and wellheads was cancelled, 5,277,045 warrants had an exercise price reduction to £0.0001 per share (the “Warrant Shares”), and an outstanding contingent payment for £3 million in oil field services and equipment that becomes payable at such time as the Company receives consideration from any sale or farm-down of its Serenity or Liberator assets will be reduced by the exercise value of the Warrant Shares, the market value of the Warrant Shares from time to time, all dividends received by BHGE associated with the Warrant Shares, and certain payments to be made to BHGE across 2021 totalling £374,383. The purpose of this restructuring was to enable i3 to become a dividend payer, as certain conditions of the abovementioned contracts prevented it from reducing its share premium account – a required step in order for i3 to effect dividend distributions to its shareholders. Also announced on 17 May was i3’s confirmation that it had received consent from all other pertinent creditors to proceed with the proposed reduction of its share premium account, as described below.

On 18 May, i3 affirmed that its Board considers it highly desirable that the Company has the maximum flexibility to consider the payment of dividends and otherwise return value to shareholders. The Company is generally precluded, however, from the payment of any dividends or other distributions or the redemption or buy-back of its shares in the absence of sufficient distributable reserves. The Company’s share premium account currently stands at approximately £62 million. As at 28 February 2021, the Company had a retained earnings deficit of approximately £11 million. i3 proposes that its share premium account be cancelled. The proposed reduction of capital (the “Capital Reduction”) is intended to eliminate the retained earnings deficit and create distributable reserves equal to the balance. i3 has called a Notice of General Meeting of its shareholders and recommends that they vote in favour of the proposed Capital Reduction. If the proposed cancellation of the Company’s share premium account is approved by Shareholders at the General Meeting, it will be subject to the scrutiny of, and confirmation by, the UK High Court, which will take due account of the protection of creditors and, subject to that confirmation and registration by the Registrar of Companies in England and Wales of the order of the High Court, is expected to take effect on or around 1 July 2021. A Capital Reduction approved by i3’s shareholders and the High Court will allow it to pay the CAD2 million (£1.16 million) dividend associated with its Q1 2021 cash flow that it announced on 31 March, and to enable its intention to make regular, half-yearly dividend payments in the future.

On 31 May, the Company announced that it had exercised a Right of First Refusal (“ROFR”) to acquire the entire 49.5% operated interest held by Anegada Oil Corporation in its South Simonette property (“Anegada Interest”), taking i3 from a 49.5% non-operated interest to a 99% operated interest in the asset. Post acquisition and as Operator, i3 will bring two suspended wells back onto production in July at a total estimated cost of USD1.16 million (USD0.58 million for each of i3’s current and acquired Anegada Interest) by installing gas lift in one and repairing an electrical submersible pump in the other, resulting in an expected increase to i3’s corporate production of 720 boepd (41% oil, 4% NGLs, 55% gas) and NTM NOI of USD5.2 million; effectively increasing the Company’s exposure to oil by 20% and expected NTM NOI by over 16%. The combined rate associated with the Anegada Interest for the three wells is estimated to be 430 boepd. The 2P reserves and associated valuation estimate for the Anegada Interest are 4.9 mboe and USD30.9 million, respectively, based on GLJ’s YE 2020 reserves evaluation, reflecting the high-impact potential oil resource identified in the Lower Montney formation at South Simonette. With all three wells on production, the forecasted next twelve months net operating income for the Anegada Interest is estimated at USD3.2 million. At a total cost to i3 of USD4.78 million for the acquisition and two well reactivation in July, the Company is acquiring the Anegada Interest and reinstating production for 1.49x NTM forecasted NOI of USD3.2 million, USD11,111/boepd, and USD0.95/boe (2P), materially below the averages since Q4 2020 for similar Western Canadian transactions of 4.53x NTM NOI, USD32,067/boepd, and USD5.61/boe. For i3’s already-owned 49.5% South Simonette interest (and incremental to i3’s current share of production from the existing producing well) the reactivation of the two wells in July is estimated to increase i3’s production by 290 boepd and NTM NOI by USD2.0 million. The Company deems this acquisition to be highly strategic to its Montney acreage where it now has a 99% operated interest at South Simonette, a 100% operated interest at North Simonette, and gross overriding royalty interests of 5% to 15% across a 41 km<sup>2</sup> area of the Middle Montney interval between its North and South Simonette acreage. If fully exploited, i3 believes that North and South Simonette could deliver peak net production of approximately 26,000 boepd. The Anegada interest has a very healthy LLR of 46.1.

**i3 Energy plc**  
**Notes To the Group Financial Statements**  
**For the Year Ended 31 December 2020**

**24 Operating income statement of the Anegada Interest**

In accordance with the AIM Rules for Companies relating to the acquisition by the Company of the Anegada Interest the operating income statement of the Anegada Interest for the twelve months to 31 December 2020 are presented below:

Anegada Interest Operating Statement of Income Before Depletion and Taxation

	<b>Twelve Months Ended 31 December 2020 (unaudited) £</b>
<b>Revenue</b>	
Production Revenue	2,359,407
Net Royalties	(99,963)
<b>Net Revenues</b>	<b>2,259,444</b>
Operating Expense	(631,303)
<b>Total expenses</b>	<b>(631,303)</b>
<b>Net Income Before Depletion and Taxation</b>	<b>1,628,141</b>

**i3 Energy plc**  
**Company Statement of Financial Position**  
**For the Year Ended 31 December 2020**

	Notes	31 December 2020 £'000	31 December 2019 £'000
<b>Assets</b>			
<b>Non-current assets</b>			
Investment in subsidiary	4	324	145
Loans to subsidiaries	4	67,754	31,533
<b>Total non-current</b>		<b>68,078</b>	<b>31,678</b>
<b>Current assets</b>			
Cash at bank and in hand		70	10,332
Trade and other receivables	5	49	16
<b>Total current assets</b>		<b>119</b>	<b>10,348</b>
<b>Current liabilities</b>			
Trade and other payables	6	(1,294)	(188)
<b>Total current liabilities</b>		<b>(1,294)</b>	<b>(188)</b>
<b>Net current assets / (liabilities)</b>		<b>(1,175)</b>	<b>10,160</b>
<b>Net assets</b>		<b>66,903</b>	<b>41,838</b>
<b>Capital and reserves</b>			
Ordinary shares		70	11
Deferred shares		50	50
Share premium		61,605	32,572
Share-based payment reserve		6,333	3,799
Warrants – LNs		9,714	11,375
Retained earnings		(10,869)	(5,969)
<b>Shareholders' funds</b>		<b>66,903</b>	<b>41,838</b>

Company number 10699593

The Company has elected to take the exemption under Section 408 of the Companies Act 2006 from presenting the Parent Company Statement of Comprehensive Income. The loss for the Company for the year was £4,900 thousand (2019 - £3,848 thousand).

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

Signed on behalf of the Board of Directors by:



Director

31 May 2021

MAJID SHAFIQ

**i3 Energy plc**  
**Company Statement of Changes in Equity**  
**For the Year Ended 31 December 2020**

	Notes	Ordinary shares £'000	Share premium £'000	Deferred shares £'000	Share- based payment reserve £'000	Warrants - LNs £'000	Retained earnings £'000	Total £'000
Balance at 31 December 2018		4	9,216	50	682	–	(2,121)	7,831
Loss for the year		–	–	–	–	–	(3,848)	(3,848)
Issue of share capital		7	23,356	–	–	–	–	23,363
Warrants - LNs		–	–	–	–	11,375	–	11,375
Share-based payment expense		–	–	–	3,117	–	–	3,117
<b>Balance at 31 December 2019</b>		<b>11</b>	<b>32,572</b>	<b>50</b>	<b>3,799</b>	<b>11,375</b>	<b>(5,969)</b>	<b>41,838</b>
Loss for the year		–	–	–	–	–	(4,900)	(4,900)
Issue of share capital		58	27,372	–	–	–	–	27,430
Exercise of warrants		1	1,661	–	–	(1,661)	–	1
Share-based payment expense		–	–	–	2,534	–	–	2,534
<b>Balance at 31 December 2020</b>		<b>70</b>	<b>61,605</b>	<b>50</b>	<b>6,333</b>	<b>9,714</b>	<b>(10,869)</b>	<b>66,903</b>

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

**i3 Energy plc**  
**Notes To the Company Financial Statements**  
**For the Year Ended 31 December 2020**

## **1 Summary of significant accounting policies**

### **General Information and Authorisation of Financial Statements**

i3 Energy plc (“the Company”) is a Public Company, limited by shares, registered in England and Wales under the Companies Act 2006 with registered number 10699593. The Company’s ordinary shares are traded on the Toronto Stock Exchange and the AIM Market operated by the London Stock Exchange. The address of the Company’s registered office is New Kings Court, Tollgate, Chandler’s Ford, Eastleigh, Hampshire, SO53 3LG.

The Company’s principal activity is that of a listed holding company and the ultimate parent of the i3 Energy plc Group, whose principal activities consist of the development and production of oil and gas on the UK Continental Shelf (UKCS) and the Western Canadian Sedimentary Basin (WCSB).

### **2 Basis of preparation**

The Company meets the definition of a qualifying entity under FRS 100, and as such these financial statements have been prepared in accordance with Financial Reporting Standard 101 Reduce Disclosure Framework (FRS 101). The financial statements have been prepared under the historical cost convention. In 2020 the Company transitioned from IFRS and adopted by the European Union for all periods presented. There were no amendments on the adoption of FRS 101.

The financial information is presented in Pounds Sterling (£, GBP), which is the Company’s functional and presentation currency, and rounded to the nearest thousand unless otherwise stated.

The Company has taken advantage of the exemption provided by Section 408 of the Companies Act 2006 not to publish its individual income statement and related notes, and has also taken advantage of the following disclosure exemptions under FRS 101:

- paragraphs 45(b) and 46 to 52 of IFRS 2 ‘Share-based Payment’ (details of the number and weighted average exercise prices of share options, and how the fair value of goods or services received was determined), as equivalent disclosures are included within the consolidated financial statements;
- paragraphs 62, B64(d), B64(e), B64(g), B64(h), B64 (j) to B64(m), B64(n)(ii), B64(o)(ii), B64(p), B64(q)(ii), B66 and B67 of IFRS 3 ‘Business Combinations’ as equivalent disclosures are included within the consolidated financial statements;
- all requirements of IFRS 7 ‘Financial Instruments: Disclosures’, as equivalent disclosures are included in the consolidated financial statements;
- paragraph 38 of IAS 1 ‘Presentation of Financial Statements’ – the requirement to disclose comparative information in respect of:
- paragraph 79(a)(iv) of IAS 1 (a reconciliation of the number of shares outstanding at the beginning and end of the period);
- paragraph 73(e) of IAS 16 ‘Property, Plant and Equipment’ (reconciliations between the carrying amount at the beginning and end of the period); and
- paragraph 118(e) of IAS 38 ‘Intangible Assets’ (reconciliations between the carrying amount at the beginning and end of the period);

IAS 7 ‘Statement of Cash Flows’;

- paragraphs 30 and 31 of IAS 8 ‘Accounting Policies, Changes in Accounting Estimates and Errors’ (the requirement for the disclosure of information when an entity has not applied a new IFRS that has been issued but is not yet effective); and
- paragraph 17 of IAS 24 ‘Related Party Disclosures’ (key management compensation), and the other requirements of that standard to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member.

### **3 Significant accounting policies**

The Company’s accounting policies are aligned with the Group accounting policies as set out within the Group financial statements, with the addition of the following:

#### **Investments**

Investments in subsidiary undertakings are stated at cost less any provision for impairment in value, prior to their elimination on consolidation.

**i3 Energy plc**  
**Notes To the Company Financial Statements**  
**For the Year Ended 31 December 2020**

**4 Investment in subsidiaries**

At 31 December 2020 the Company held 100% of the share capital of the following wholly owned subsidiaries:

Company	Place of Business	Registered Office	Ownership held	Nature of business	
i3 Energy North Sea Limited	England and Wales	New Kings Court Tollgate Chandler's Ford Eastleigh, Hampshire SO53 3LG	100%	Exploration & Production	
i3 Energy Canada Limited	Canada	4600, Bankers Hall West Calgary, Alberta T2P 5C5	100%	Exploration & Production	
					<b>Total</b>
					<b>£'000</b>
As at 31 December 2019					<b>145</b>
Additions					<b>179</b>
<b>As at 31 December 2020</b>					<b>324</b>

In the year the Group incorporated a wholly owned subsidiary 2273498 Alberta Ltd. through which it acquired the Gain assets on 3 September 2020. The Company then acquired Toscana Energy Income Corporation and its subsidiaries on 30 October 2020 through the issuance of 4,399,215 of ordinary shares of i3 Energy Plc which had a fair value of £178 thousand on the acquisition date. In October 2020 TEIC and its subsidiaries were amalgamated into a single Canadian entity, which was later amalgamated with 2273498 Alberta Ltd. in December 2020 and renamed to i3 Energy Canada Limited.

During the year the Company provided funds to subsidiaries amounting to £37,424 million for total funds provided to date of £71,300 (2019 - £33,876) to its subsidiaries and received funds in the amount of £1,203 thousand during the year for total funds received to date of £3,546 thousand (2019 - £2,343 thousand) from its subsidiary. Included within these balances are management service fees of £1,420 for administrative services provided to i3 Energy Canada Limited, of which £1,198 originated from and are due to i3 Energy North Sea Limited. The total funds receivable at 31 December 2020 was £67,754 thousand of (2019 - £31,533 thousand).

Loans advanced from or to the subsidiaries are unsecured, interest free and have no fixed repayment date, see note 20 of the Group financial statements. On 30 March 2020, the Company purchased the rights and interests in TEIC's CAD24.8 million senior and CAD3.2 million junior debt facilities for CAD3.0 million and CAD0.4 million, respectively (£2.0 million), with cash consideration being paid 50% up front and 50% payable on 31 December 2020. The Company later acquired 100% of the share capital on 30 October 2020, and therefore this amount is included within loans to subsidiaries as at 31 December 2020.

**5 Trade and other receivables**

	<b>31 December 2020</b>	31 December 2019
	<b>£'000</b>	£'000
VAT receivable	–	10
Prepayments & other receivables	49	6
<b>Total trade and other receivables</b>	<b>49</b>	<b>16</b>

Other receivables are all due within one year.

The fair value of other receivables is the same as their carrying values as stated above.

Other receivables do not contain any impaired assets.

The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivable mentioned above. The Group does not hold any collateral as security.

**i3 Energy plc**  
**Notes To the Company Financial Statements**  
**For the Year Ended 31 December 2020**

**6 Trade and other payables**

	<b>31 December 2020</b>	31 December 2019
	<b>£'000</b>	<b>£'000</b>
Trade creditors	1,123	25
Accruals	171	163
	1,294	188
<b>Total trade and other payables</b>	<b>1,294</b>	<b>188</b>

The average credit period taken for trade purchases is 30 days. No interest is charged on the trade payables. The carrying values of trade and other payables are considered to be a reasonable approximation of the fair value and are considered by the Directors as payable within one year.

**7 Disclosures included in the Group Financial Statements**

Certain information relevant to the Company Financial Statements is included in the notes to the Group financial statements. These include:

- Note 2 – Basis of preparation
- Note 3 – Significant accounting policies
- Note 4 – Business combinations
- Note 7 – Administrative expenses
- Note 18 – Authorised, issued, and called-up share capital
- Note 19 – Stock-based payments
- Note 21 – Financial instruments and capital risk management
- Note 23 – Subsequent events

**i3 Energy plc**  
**Corporate Information**

<b>Registered number</b>	<b>10699593</b>
<b>Directors</b>	<b>David John Wissler Knox</b> – Non-Executive Chairperson (Retired from i3’s Board 07 February 2020) <b>Linda Beal</b> – Non-Executive Director (Joined i3 Board 13 September 2019, Appointed Interim Non-Executive Chairperson 07 February 2020) <b>Majid Shafiq</b> – Chief Executive Officer <b>Graham Andrew Heath</b> – Chief Financial Officer <b>Richard Millington Ames</b> – Non-Executive Director <b>Neill Ashley Carson</b> – Non-Executive Director <b>John Festival</b> – Non-Executive Director (Appointed December 2020)
<b>Company Secretary</b>	<b>Burness Paull LLP</b>
<b>Registered Office</b>	New Kings Court Tollgate Chandler’s Ford Eastleigh, Hampshire United Kingdom S053 3LG
<b>Independent Auditor</b>	<b>PKF Littlejohn LLP (Registered Auditor)</b> 15 Westferry Circus Canary Wharf London E14 4HD United Kingdom
<b>Solicitors</b>	<b>Burness Paull LLP</b> 50 Lothian Road Festival Square Edinburgh EH3 9WJ
<b>Nominated Advisor and Broker</b>	<b>WH Ireland Limited</b> 24 Martin Lane London EC4R 0DR
<b>Brokers</b>	<b>Tennyson Securities</b> 23 Floor 20 Fenchurch Street London EC3M 3BY  <b>Canaccord Genuity Limited</b> 88 Wood Street London EC2V 7QR
<b>Registrars</b>	<b>Link Group</b> 10th Floor Central Square 29 Wellington Street Leeds LS1 4DL
<b>Principal Bankers</b>	<b>Royal Bank of Scotland</b>
<b>Company Website</b>	<a href="http://www.i3.energy">www.i3.energy</a>
<b>Company Telephone Number</b>	+44 (0) 1224 945 980

**i3 Energy plc**  
**Appendix A: Glossary**

1P	Proved reserves
2P	Proved plus probable reserves
AER	Alberta Energy Regulator
AIM	The Alternate Investment Market of the London Stock Exchange
APM	Alternate Performance Measure
ASCP	Saskatchewan's Accelerated Site Closure Program
BOE	Barrels of Oil Equivalent
BOEPD	Barrels of Oil Equivalent Per Day
CAD	Canadian Dollars
CEO	Chief Executive Officer
CFO	Chief Financial Officer
CLNs	Convertible Loan Notes
Company	i3 Energy plc
E&E	Exploration and evaluation
FVTPL	Fair Value through Profit or Loss
Gain	Gain Energy Ltd.
Gain Acquisition Date	3 September 2020
Gain Assets	Assets retained by i3 following the purchase from Gain and sale to Harvard
GBP	British Pounds Sterling
Group	i3 Energy plc, together with its subsidiaries
Harvard	Harvard Resources Inc.
i3	i3 Energy plc, together with its subsidiaries
i3 Canada	i3 Energy Canada Limited
IAS	International Accounting Standard
IFRIC	International Financial Reporting Interpretations Committee
IFRS	International Financial Reporting Standard
LLR	The licensee's deemed asset to deemed liability ratio as determined under Directive 006 (Licensee Liability Rating (LLR) Program and Licence Transfer Process) of the Alberta Energy Regulator (AER). The deemed asset value is calculated by multiplying the licensee's reported production of oil and gas for the prior 12 months by the rolling 3-year provincial industry average netback (determined by the AER). The deemed liability is the total cost for the future abandonment and site reclamation of all a licensee's wells and upstream facilities based on provincial industry average costs (determined by the AER).
MMboe	Million Barrels of Oil Equivalent
NED	Non-executive Director
NOI	Net Operating Income
NTM	Next Twelve Months
OGA	UK Oil and Gas Authority
PDP	Proved, developed, producing reserves

**i3 Energy plc**  
**Appendix A: Glossary**

PP&E	Property, plant and equipment
RTO	Reverse Take-over
SRP	Alberta's Site Rehabilitation Program
TEIC	Toscana Energy Income Corporation
Toscana	Toscana Energy Income Corporation
Toscana Acquisition Date	30 October 2020
SRP	Site Rehabilitation Program
TSX	Toronto Stock Exchange
UKCS	UK Continental Shelf
USD	United States Dollar
WCSB	Western Canadian Sedimentary Basin
WTI	West Texas Intermediate

## Appendix B: Alternate performance measures

The group uses Alternate Performance Measures (“APMs”), commonly referred to as non-IFRS measures, when assessing and discussing the Group’s financial performance and financial position. APMs are not defined under IFRS and are not considered to be a substitute for or superior to IFRS measures. Other companies may calculate similarly defined or described measures, and therefore their comparability may be limited.

**EBITDA and Adjusted EBITDA**

EBITDA is defined as earnings before depreciation, depletion, financial income, and tax. Adjusted EBITDA is defined as EBITDA before gain on bargain purchase and acquisition costs. Management believes that EBITDA provides useful information into the operating performance of the Group, is commonly used within the oil and gas sector, and assists our management and investors by increasing comparability from period to period. Adjusted EBITDA removes the gain on bargain purchase and the related acquisition costs which management does not consider to be representative of the underlying operations of the Group.

A reconciliation of profit as reported under IFRS to EBITDA and Adjusted EBITDA is provided below.

	<b>2020</b>	2019
	<b>£’000</b>	£’000
Profit (Loss) for the year	11,718	(10,581)
Depreciation and depletion	4,854	–
Finance costs	7,368	5,534
Tax	(1,110)	–
	<hr/>	<hr/>
<b>EBITDA</b>	<b>22,830</b>	<b>(5,047)</b>
Acquisition costs	1,542	–
Gain on bargain purchase	(25,211)	–
	<hr/>	<hr/>
<b>Adjusted EBITDA</b>	<b>(839)</b>	<b>(5,047)</b>
	<hr/> <hr/>	<hr/> <hr/>

**Operating netback**

Operating netback is defined as gross profit before depreciation, which equals revenue net of royalty expenses, less production costs. Management believes that operating netback is a useful supplement measure as it provides investors with information on operating margins before non-cash depreciation and depletion charges.

A reconciliation of gross profit as reported under IFRS to operating netback is provided below.

	<b>2020</b>	2019
	<b>£’000</b>	£’000
Gross profit	62	–
Depreciation and depletion	4,854	–
	<hr/>	<hr/>
<b>Operating netback</b>	<b>4,916</b>	–
	<hr/> <hr/>	<hr/> <hr/>