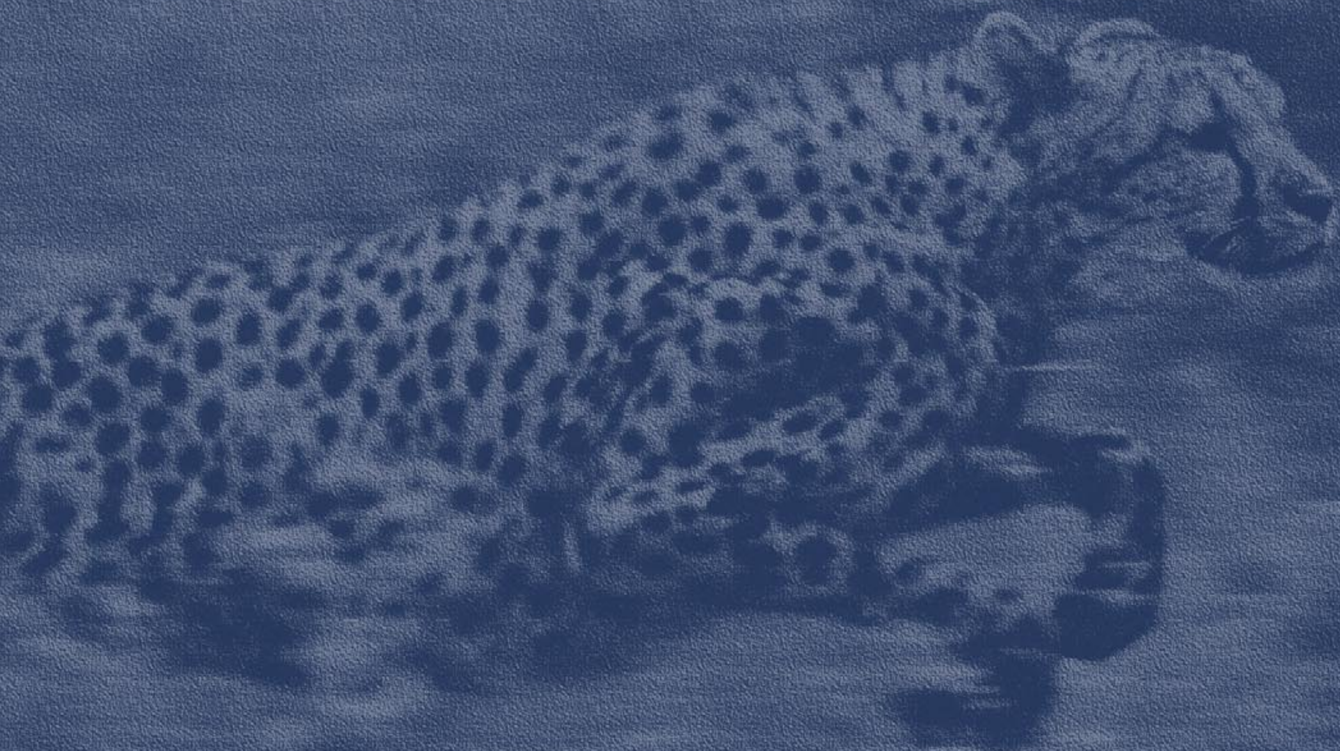
LEKOIL

SHAPING THE FUTURE OF OIL EXPLORATION AND PRODUCTION IN AFRICA

Annual Report and Accounts 2018

LEKOIL is an Africa focused oil and gas exploration and production company with interests in Nigeria. We are headquartered in Lagos with additional offices in Princeton, USA and London. We employ 92 people.



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Our 2018 Annual Report is available in both printed form and on the Investors section of the LEKOIL plc website at:
www.lekoil.com

Highlights

Operational

Otakikpo

- Production levels averaged approximately gross 5,345 bopd, (2,076 bopd net to LEKOIL)
- Phase Two preparations for development commenced with acquisition of 3D seismic in February, with an updated CPR being finalised ahead of publication
- Subject to agreement on funding with one or more industry partners, plans underway for a three to five well drilling programme, targeting to increase production levels to approximately gross 15,000 to 20,000 bopd (6,000 – 8,000 bopd net to LEKOIL)

OPL 310

- Plans have advanced for the OGO appraisal drilling programme with well locations selected. Funding discussions are currently underway with certain industry partners
- Despite this, the Federal High Court ruled that LEKOIL's acquisition of Afren Oil and Gas (Nigeria) Limited ("AIOGNL") (and its 22.86% interest in OPL 310) inchoate and invalid given the failure to obtain Ministerial consent
- In response LEKOIL has withdrawn its lawsuit and continues engagement with its partner, Optimum Petroleum Development Limited ("Optimum"), and the regulator, to conclude agreements and resolve all outstanding issues
- The OPL 310 licence has lapsed, however Optimum in its capacity as Operator has begun the extension process and whereas there is no guarantee that the licence will be renewed, LEKOIL is hopeful for a favourable response from the regulators in this regard

OPL 325

- Technical Evaluation completed in January 2018 by consultants Lumina identified and reported on 11 prospects and leads which were estimated to contain potential gross aggregate Oil-in-Place volumes of over 5,700 mmbbls (un-risked, Best Estimate case)
- After finalising terms for a Production Sharing Contract on the block, LEKOIL intends to farm-down a portion of its 62 per cent. working interest following a detailed prospect/lead risking study

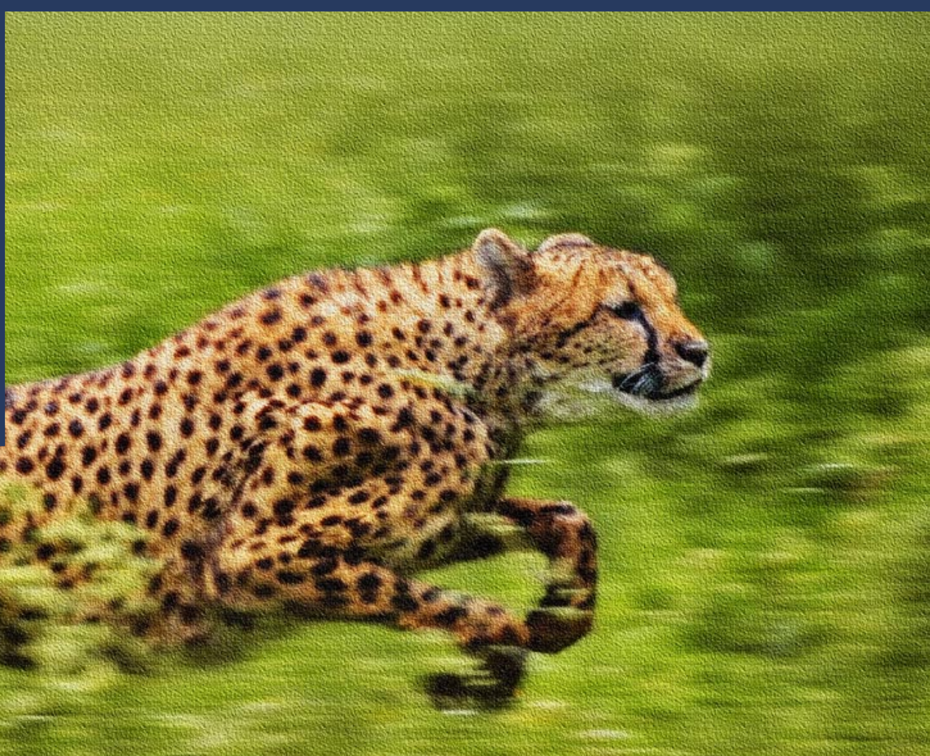
Financial

- Equity crude sales proceeds of US$48.7 million
- Total entitlement crude consisted of 1,346,525 total barrels net to LEKOIL
- The Group lifted 1,305,888 barrels of its entitlement, realising an average sales price of approximately US$66 per barrel
- Loss for the year of US$7.8 million (2017: profit of US$6.5 million)
- Cash and bank balances of US$10.4 million as at 31 December 2018 (31 December 2017: US$6.9 million, 30 June 2018: US$9.8 million). Cash at 31 May 2019: US$13.1 million
- As at 31 December 2018, total outstanding debt financing, net of cash, was US$10.1 million (2017: US$22.6 million)
- Target of 25% reduction of general and administrative costs annually, including Board remuneration.

Chairman's and CEO's statement

2018 marked LEKOIL's first full year as a producing company and represents a major milestone as we continue to implement our strategy to build a diversified, self-funded Africa-focused exploration and production business.

We seek to achieve this through growing production at the Otakikpo marginal field, our existing producing asset, situated in oil mining lease (OML) 11 in the south eastern coastal swamp of the Niger Delta and through unlocking the value of our interest in OPL 310, the offshore block adjacent to Lagos which contains the world class Ogo discovery. In addition to the Otakikpo marginal field and OPL 310, the Group also has an interest in OPL 325 which in our view has significant exploration upside potential.



"The priority for 2019 is to grow production volumes at Otakikpo through Phase Two development (subject to funding) to reach gross volumes of 15,000 to 20,000 bopd. The first step has already occurred, with 3D seismic data acquisition and interpretation now completed."

Otakikpo
In 2018, production levels at Otakikpo averaged approximately gross 5,345 bopd, (2,076 bopd net to LEKOIL). Phase Two preparations for development commenced with the acquisition of 3D seismic in February. Plans are underway for a three to five well drilling programme, which is targeting to increase production levels to around gross 15,000 to 20,000 bopd, and further investment in infrastructure facilities for crude oil evacuation.

In 2018, LEKOIL had equity crude sales proceeds of US$48.7 million from 739,106 barrels, exclusive of cost recovery barrels and cash call barrels (US$34 million from 507,176 barrels and US$6.6 million from 100,243 barrels, respectively). The Group's total entitlement crude consisted of 1,346,525 total barrels net to LEKOIL which includes both cost recovery barrels and barrels produced post the end of cost recovery. Of these, the Group lifted 1,305,888 barrels. LEKOIL realised an average sales price of approximately US$66 per barrel.

In November, the 3D seismic acquisition and processing operations undertaken by Sinopec Changjiang Engineering Services Limited ("Sinopec") at Otakikpo was completed. The data interpretation stage has also now been completed and the results will form the basis of an updated Competent Person's Report (CPR), to be finalised and then published.

The completion of the seismic survey and CPR is assisting the joint venture, with LEKOIL as Technical Partner and Green Energy International Limited as Operator, in optimising the planned Phase Two development.

Appraisal and exploration asset – OPL 310
On March 28, 2019, the Federal High Court, sitting in Ikoyi, Lagos State, Nigeria ruled that LEKOIL's purported acquisition of shares in Afren Investment Oil and Gas (Nigeria) Limited ("AIOGNL") and by that, the 22.86 per cent interest in OPL 310, is inchoate and invalid given the failure to obtain Ministerial Consent in respect of the transfer of the said shares. The Judge also ruled that pursuant to Articles 13.1.4 and 13.1.5 of the Joint Operating Agreement (JOA) between Optimum and AIOGNL, Optimum's consent is required to effect a transfer of AIOGNL's interest in OPL 310, or any part thereof, to LEKOIL.

The implication of the Judge's pronouncement that our subsidiary LEKOIL 310 Limited has not acquired the shares of AIOGNL is that pending receipt of Ministerial consent to the acquisition, AIOGNL retains its 22.86 per cent participating interest in OPL 310.
On the basis that the Group still requires Ministerial consent in order to control the entity and associated mineral rights, the entity is not consolidated into the Group accounts of LEKOIL.

LEKOIL 310 Limited had initially filed an appeal against the decision of the Federal High Court, but decided to withdraw legal action following receipt of a letter dated 8 May 2019 from the Ministry of Petroleum Resources relating to an application for an extension (re-award) to the OPL 310 licence (the "Letter"). The Letter states that the Government has noted that the OPL 310 licence expired on 10 February 2019 and ownership of OPL 310 has accordingly reverted to the Government in line with Petroleum Act. The Letter further sets out that the re-award will not be considered by the Honourable Minister of Petroleum Resources ("HMPR") until such point as the suit filed by LEKOIL against the HMPR is withdrawn by LEKOIL and other parties to the action. Failure by LEKOIL and others to withdraw the suit within thirty (30) days of the Letter forecloses any consideration of re-award to Optimum Petroleum Development Limited, LEKOIL and their affiliates or subsidiaries.

LEKOIL 310 Limited decided to withdraw legal action on 16 May 2019 but will continue engagements with the regulator and the Operator of the Asset to conclude agreements and resolve all outstanding issues.

Although the ten-year tenure granted to OPL 310 licence in 2009 has lapsed, Optimum in its capacity as Operator has begun the extension process and whereas there is no guarantee that the license will be renewed, LEKOIL is hopeful for a favourable response from the regulators in this regard.

Exploration asset – OPL 325
OPL 325 is located in the offshore Dahomey Basin, some 50km to the south of OPL 310. In January 2018, we announced the completion of a Technical Evaluation Report for OPL 325 which is available on our web site. The Report was compiled by independent oil and gas industry specialists Lumina Geophysical, which carried out a geophysical evaluation of approximately 800 sq km of 3D seismic data provided by LEKOIL.

Lumina identified and reported on a total of eleven prospects and leads on the block, estimated to contain potential gross aggregate Oil-in-Place volumes of over 5,700 mmbbls (un-risked, Best Estimate case). Lumina focused primarily on the Paleocene section of the block, generating new structural and stratigraphic maps using 3D pre-stack time migrated seismic data. These maps were used in the volumetric approach to come to an estimation of potential resources in OPL 325.

The independent report underlined our belief in the prospectivity of this asset that was part of LEKOIL's original Dahomey Basin study. We believe that the deep water turbidite fan play is particularly exciting for OPL 325 in which we have a significant interest via our subsidiary, Ashbert Oil and Gas Limited. After finalising terms for the Production Sharing Contract (the "PSC") on the block, we intend to farm-down a portion of our 62 per cent. working interest following a detailed prospect/lead risking study.

LEKOIL holds its 62 per cent equity interest in OPL325, through Ashbert Oil & Gas Limited ("Ashbert"). LEKOIL will seek the consent of HMPR for the OPL 325 acquisition when Ashbert either transfers interest in the PSC directly to LEKOIL or farms down to a third party.

Financial
In the year ended 31 December 2018, LEKOIL recorded a loss of US$7.8 million (2017: profit of US$6.5 million) and ended the period with cash and bank balances of US$10.4 million (31 December 2017: US$6.9 million, 30 June 2018: US$9.8 million). Total outstanding debt financing net of cash was US$10.1 million (2017: US$22.6 million)

In June 2018 LEKOIL and its bankers re-denominated approximately N3.1 billion of debt facilities into one new US$8.55 million facility which reduced the high financing costs of local currency debt. The documentation to complete this was finalised in March 2019.

There was also a concerted effort during the year to pay off vendor financing from prior periods, as can be seen by the improved gearing position and reduction in liabilities.

The Board and Management regularly monitors the Company's cash flow projections. The cash balance as at the end of May 2019 was US$13.1 million. In light of delays with progressing key assets, we have decided to take action in order to reduce our overheads. Management has created a project team to review costs with the aim to decrease general and administrative costs by 25 per cent. This includes a 25 per cent reduction in Board remuneration.

LEKOIL Exploration and Production (PTY) Limited

In July 2017, LEKOIL Exploration and Production (Pty) Limited, a subsidiary of LEKOIL, relinquished Namibian block 2514A and renewed block 2514B until July 2019. It has been noted that there is low prospectivity on Block 2514B. The Directors have decided to relinquish the Company's interest in block 2514B and commence a voluntary winding up of LEKOIL Exploration and Production (Pty) Limited.

Board

In May 2019 we announced Lisa Mitchell's departure as the Company's Chief Financial Officer. Greg Eckersley, currently Non-Executive Director, will assume the role of interim Chief Financial Officer, to oversee, with the support of the Company's financial controller, the Company's finance function, following publication of the 2018 annual report and accounts. Greg is currently Chairman of LEKOIL's Remuneration Committee and is a member of the Company's Audit Committee.

The Company has commenced the search to identify candidates for the role of a permanent Chief Financial Officer. In view of the needs of the business, the Company is focusing the search on a candidate that will be based primarily in Nigeria.

Operational review

Otakikpo marginal field
Producing asset

Situated in a swamp area in OML 11, Otakikpo commenced production in February 2017.

Background

LEKOIL farmed-in to Otakikpo in May 2014. The consideration paid to Green Energy International Limited ("GEIL") for the acquisition of the interest comprised a signature bonus of US$7 million (an implied US$0.5/bbl acquisition price) and, contingent on production and Ministerial Consent, a production bonus of US$4 million (fully paid in December 2017). In addition, LEKOIL was to, and did, fund costs to first oil and was entitled to recover this expenditure preferentially from 88 per cent. of production cash flow from Otakikpo. The license terms also include a commitment to develop a small-scale gas utilisation project. LEKOIL has exited the cost recovery phase and has now reverted to its 40 per cent participating interest share of production from Otakikpo.

Commercial production commenced in February 2017 and reached approximately gross 7,600 bopd (net with cost recovery barrels 6,688) in December of that year. In 2018, production averaged gross 5,345 bopd (2,076 bopd net to LEKOIL) for the year and total production was approximately gross 1,951,249 barrels of oil (total to LEKOIL including cost recovery crude 1,346,525 barrels). The initial target of 10,000 bopd was not achieved due to compartmentalisation issues on Well -003 and another area as revealed from the newly acquired 3D seismic.

Average realised prices were US$65.64/bbl during the year. This combined with production volumes, enabled LEKOIL to recover its initial costs of development under the terms of the carry agreement with GEIL. The joint venture is now planning for Phase Two development which targets 3 to 5 wells and gross production of 15,000 to 20,000 bopd (6,000 to 8,000 bopd net to LEKOIL).

In anticipation of increased production levels, we plan to upgrade our existing production facilities and construct additional onshore storage. Location preparation is underway at selected well locations.

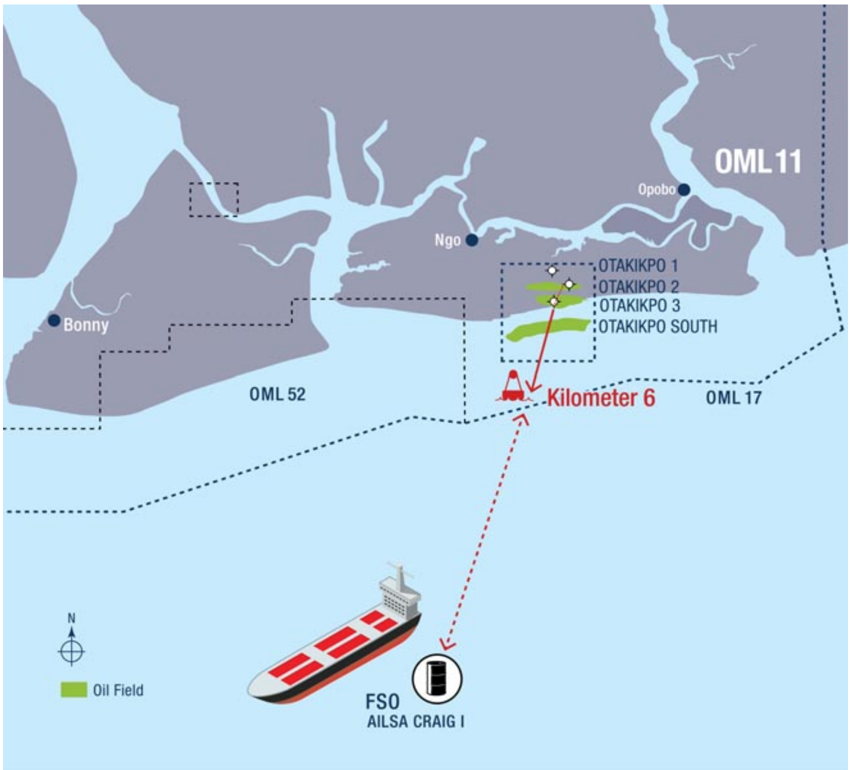
The most recent 3D seismic data was acquired during 2018 with interpretation continuing to the end of the year which will lead to the publication of an updated Competent Person's Report.

1,951,249

Total production was approximately gross 1,951,249 barrels of oil

$65.64 per bbl

Average realised prices were US$65.64/bbl during the year



"In anticipation of increased production levels, we plan to upgrade our existing production facilities and construct additional onshore storage. Location preparation is underway at selected well locations."

"We also continue to advance toward the start of the appraisal drilling programme on Ogo in OPL 310. We will work with our joint venture partner, Optimum to negotiate agreements that will allow us to make progress on the block, after securing all relevant regulatory extensions and approvals."

Ogo Discovery and OPL 310 – Appraisal and exploration asset

LEKOIL originally commissioned a regional basin study and identified the Dahomey Basin block OPL 310 as a key target. The OPL 310 is located in the Upper Cretaceous fairway that runs along the West African Transform Margin. The block extends from the shallow water continental shelf close by the City of Lagos, Nigeria into deeper water. The main prospects within the licence area are in water depths ranging from 100 to 800 metres and are within proximity to the West Africa Gas Pipeline.

Background

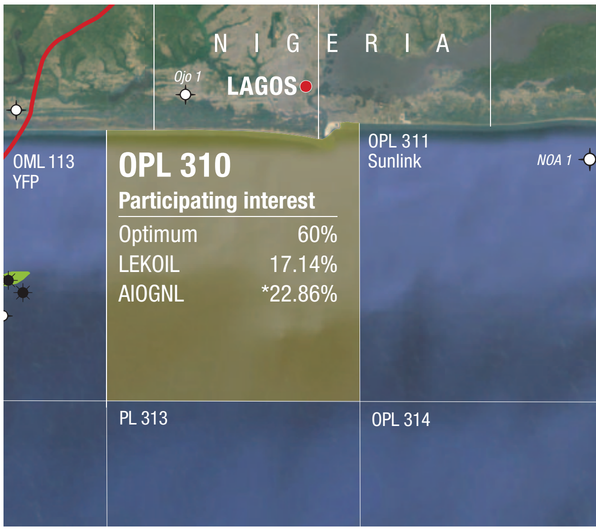
In 2013, Mayfair Assets and Trust Limited, a subsidiary of LEKOIL, farmed into Afren Investments Oil and Gas (Nigeria) Limited's (AIOGNL) interest in OPL 310 for a 17.14 per cent participating interest and 30 per cent economic interest, subject to Ministerial Consent from Nigeria's Minister for Petroleum Resources. Ministerial Consent was granted for the acquisition of the 17.14 per cent interest on 9 June 2017.

In 2013, we drilled an appraisal well and side-track with our partners targeting the Eko, Agege and the Syn-rift prospects. This resulted in a significant discovery in the Ogo prospect. Based on data from the wells, revised estimates for the P50 gross recoverable resources attributable to LEKOIL from the Ogo field were identified as being 232 mmboe (P50), from gross recoverable resources of 774 mmboe. This exceeded the expected pre-drill P50 gross recoverable resource estimates of 202 mmboe. Additionally, Syn-rift leads identified within OPL 310 were expected to contain light oil or condensate-rich gas with further shallow water leads also being identified. This year we have taken steps forward in appraisal drilling planning, which will eventually lead to conversion of the block to an Oil Mining License and working to extend/renew the expiry of the license as a result of its expiration in February 2019.

On 31 July 2015, Afren plc was put into administration and its assets put up for sale. On 1 December 2015, LEKOIL announced an agreement with the administrator of Afren PLC and Afren Nigeria Holding Limited to acquire certain intra-company debt and the shares of AIOGNL, which held a 22.86 per cent participating interest in OPL 310. This interest was also subject to Consent from the Minister for Petroleum Resources.

An application for Ministerial Consent to the transfer of the 22.86 per cent interest was duly made by Afren Nigeria in January 2016. In March 2016, LEKOIL was notified by the Ministry of Petroleum Resources that the necessary due diligence exercise would be conducted that month. The due diligence exercise did not take place and is yet to be rescheduled by the Department of Petroleum Resources.

In the last year, we were dedicated to advancing plans for the Ogo appraisal drilling programme, readying operations throughout the year. Rig contracting due



"LEKOIL continues to make progress with partner Optimum towards resolving the remaining issues and beginning appraisal activities on OPL 310."

diligence work commenced, logistical plans were put in place and long lead items such as well heads and OCTG equipment were ordered.

Despite progressing exploration and appraisal activities on OPL 310, given that LEKOIL had not yet been granted Ministerial Consent for its acquisition of the additional 22.86 per cent interest in OPL 310 over twenty four months after its application for same, as well as the impending expiration of the OPL 310 licence, LEKOIL took the decision at the end of March 2018 to apply to the Federal High Court of Nigeria for a declaration that was expected to expedite the consent process, and preserve the unexpired tenure in the licence which was otherwise due to expire in February 2019.

Following a series of adjournments, a Federal High Court sat in Ikoyi, Lagos State, Nigeria, on 7 February 2019 and heard the matters presented before it and on 28 March 2019, the Court delivered its ruling, stating that the Company's purported acquisition of shares in AIOGNL and by that, the transfer of interest in OPL 310, is inchoate and invalid given the failure to obtain Ministerial Consent in respect of the transfer of the said shares.

Status	Appraisal & Exploration
Participating interest	17.14% held through Mayfair Assets & Trust Limited, 22.86% held by Afren Investments Oil and Gas (Nigeria) Limited ("AIOGNL") *
AIOGNL status	Technical and Financial Partner
Operator	Optimum Petroleum Development Limited
P50 Gross Risked Prospective Resources	774.0 mmboe
Expiry	February 2019**

*LEKOIL entered into a Share Purchase Agreement to acquire the entire issued share capital of AIOGNL which owned a 22.86 per cent participating interest in OPL 310. However, pursuant to a ruling of the Federal High Court sitting in Lagos on 28 March 2019, the share acquisition transaction is inchoate and invalid given that Ministerial Consent to the transaction has not been obtained. Pending the receipt of the said Ministerial Consent to the transaction, LEKOIL 310 Limited has not acquired the shares of AIOGNL, which remains with Afren Nigeria Holdings Limited. LEKOIL is however still in the process of negotiating definitive agreements with Optimum that would enable parties to continue to work OPL 310 pending receipt of Ministerial Consent.
**Although the OPL 310 licence has expired, Optimum in its capacity as Operator has begun the extension application process and whereas there is no guarantee that the license will be renewed, LEKOIL is hopeful for a favourable response from the regulators in this regard.

774 mmboe

Gross recoverable resources attributable to LEKOIL from the Ogo field were identified as being 232 mmboe (P50), from gross recoverable resources of 774 mmboe.

1,505 km^2

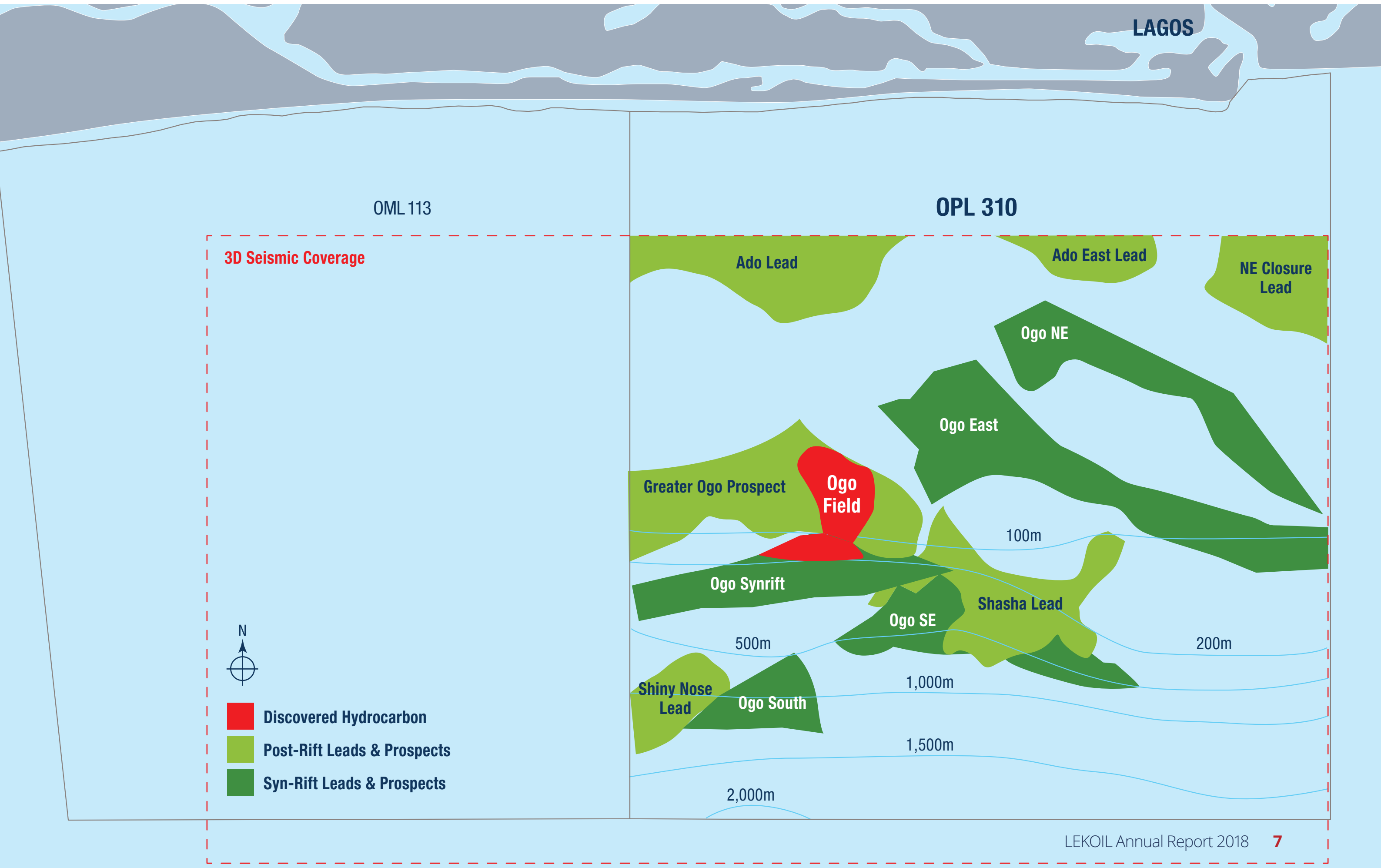
The partners completed a 1,505 square kilometre 3D seismic acquisition programme, which represented approximately 80% of the acreage within OPL 310

The Judge also ruled that pursuant to Articles 13.1.4 and 13.1.5 of the Joint Operating Agreement between Optimum and AIOGNL, Optimum's consent is required to effect a transfer of AIOGNL's interest in OPL 310 or any part thereof to LEKOIL. LEKOIL is however still in the process of negotiating definitive agreements that would enable LEKOIL to continue to work the OPL 310 asset pending receipt of Ministerial Consent. LEKOIL had initially filed an appeal against the decision of the Federal High Court but decided to withdraw legal action following receipt of a letter dated 8 May 2019 from the Ministry of Petroleum Resources relating to an application for an extension (re-award) to the OPL 310 licence (the "Letter"). The Letter states that the Government has noted that the OPL 310 licence expired on 10 February 2019 and ownership of OPL 310 has accordingly reverted to the Government in line with Petroleum Act. The Letter further sets out that the re-award will not be considered by the Honourable Minister of Petroleum Resources ("HMPR") until such point as the suit filed by LEKOIL against the HMPR is withdrawn by LEKOIL and other parties to the action. Failure by LEKOIL and others to withdraw the suit within thirty (30) days of the Letter, which was dated 8 May 2019, forecloses any consideration of re-award to Optimum Petroleum Development Limited, LEKOIL and their affiliates or subsidiaries. LEKOIL will continue its engagements with the regulator and Optimum to conclude agreements and resolve all outstanding issues on the Asset.

The implication of the Judge's pronouncement that LEKOIL 310 Limited has not acquired the shares of AIOGNL is that, pending the receipt of Ministerial consent to the acquisition, the 22.86 per cent participating interest in OPL 310 is still held by AIOGNL.

With regards to the license extension, Optimum, in its capacity as operator and LEKOIL, had previously requested that the Federal Ministry of Petroleum Resources grant an extension of the OPL 310 license beyond February 2019 in order to recover over three years lost due to regulatory delays beyond the Company's control. The Company understands that the Department for Petroleum Resources has made its recommendation for an extension to the Honourable Minister of Petroleum Resources and is currently awaiting final approval of such extension by the President of Nigeria. Whilst the Company is hopeful that such extension will be granted, there can be no guarantee that it will be granted or the period of such extension.

LEKOIL continues to make progress with partner Optimum towards resolving the remaining issues regarding this matter in the interest of moving forward and beginning appraisal activities on OPL 310.



OPL 325 – Exploration asset

OPL 325 was also identified as a target in LEKOIL's regional basin study covering the Dahomey Basin. The OPL 325 licence area is located in the offshore Dahomey Basin within the wrench zone that straddles the western Niger Delta and is located 50km to the south of OPL 310.

OPL 325 Status

Status	Exploration
Participating interest	62%*
Economic interest	62%*
Partner	National Petroleum Development Company Ltd and Local content vehicle
Gross STOIIP unrisked prospective resources	5-6 billion boe
Expiry	Production Sharing Contract in progress**

*via LEKOIL's majority stake in Ashbert Oil & Gas Limited, which holds 70% working interest in OPL 325 and is Operator.

**The Production Sharing Contract ("PSC") terms have been negotiated and the document awaits signatures. Until the PSC is issued and signed we do not believe a right, power or interest in a petroleum asset exists as outlined in the original Letter of Award that would trigger a requirement for consent. LEKOIL is prepared to address the consent requirements for OPL 325 when Ashbert either transfers interest in the PSC directly to LEKOIL or farms down to a third party.

Background

In October 2015, LEKOIL entered into an agreement with Ashbert Limited to acquire, via LEKOIL Exploration and Production Nigeria Limited (LEPNL), 88.57 per cent of the issued share capital of Ashbert Oil and Gas Limited, which was awarded the PSC in OPL 325 for an initial consideration of US$16.1 million, with other payments due at developmental milestones totalling US$24.1 million.

We have had access to 3D seismic data over 740km2 and are encouraged by the results and our interpretation of the analysis. In January 2018, a thorough, independent technical study by consultants Lumina, prepared for LEKOIL, affirmed their preliminary review of oil in place volumes of 5.7 billion boe as an un-risked, Best Estimate case. We intend to farm-down a portion of our working interest in OPL 325 following a detailed prospect and lead risking study and finalising the PSC, which we expect to be complete in the near future. A prospect/lead risking study is already underway on the block. We expect to commence the farm down process before year end 2019.

Corporate & Social Responsibility

LEKOIL's high, ethical standards in its business activities are reflected in the Company's respect for all our people regardless of age, designation and gender. We work in an environment that fosters effective communication and we deal courteously with all stakeholders, respecting the customs and rules of the countries in which we operate.

We act responsibly, promoting accountability as individuals and as a company. We operate with ethics and fairness and comply with all required rules and regulations.

We are committed to the welfare and development of the communities around our operations. In our dealings with the local communities surrounding our producing asset, Otakikpo, LEKOIL's corporate and social responsibility ("CSR") plan continues to focus on three strategic aims:

i) Education;

ii) Economic and social empowerment (including women and children); and

iii) Environmental and social sustainability.

We are a part of the communities in which we operate. In the coastal town of Ikuru, close to Otakikpo, we recognised the need for community support for our work and, to that end, LEKOIL has been helping improve the quality of life for the residents. We have signed a land lease agreement with the people of Ikuru backed by a memorandum of understanding that places on us a responsibility to develop sustainably. As a cluster, other coastal communities of Ugama Ekede, Ayama Ekede, Asuk Ama and Asuk Oyet have a similar memorandum of understanding.

We have demonstrated through the memoranda of understanding a commitment to Free, Prior and Informed Consent principles and established Incorporated Communities' Trust Funds

with annual appropriation. These trusts have proven to be veritable vehicles for informed communities' consultation and participation, whereby the communities conduct their needs analysis through their governance processes, decide on annual programmes based on their needs analysis and available resources, and prioritise development in a sustainable manner. These programs and activities cover:

i) Infrastructures including construction of school buildings, roads and bridges, public toilets, markets, water reticulation projects, etc.;

ii) Scholarship and bursaries to secondary, undergraduate and graduate students;

iii) Entrepreneurship and skills acquisition support for the youths and women; and

iv) Community health outreaches and projects, safety and security.

LEKOIL provides active help to the communities surrounding our first development, Otakikpo. We support better education and skills development for our colleagues and communities, specifically in Science, Technology, Engineering and Mathematics ("STEM") to enhance employability. We also support programmes geared towards elevating the status of women and their contributions to nation building, increasing the success rate of female entrepreneurs and the proportion of women in senior positions in corporate organisations. Examples are the WIMBIZ

Opposite: *LEKOIL medical outreach programme in Ikuru town.*

Below: *WimBiz conference 2018.*

Right: *Murtala Muhammed Foundation ("MMF") in partnership with LEKOIL supported education and humanitarian relief initiatives.*

(Women in Business) initiative and ENACTUS which are outlined below.

We promote diversity and equality through support for the WIMBIZ initiative, a Nigeria based non-profit organisation with an overriding vision "to be the catalyst that elevates the status and influence of women and their contribution to nation building". The WIMBIZ conference is an opportunity to get involved with equipping participants with the tools and skills to harness and embrace opportunities in Nigeria, to become fore runners for change.

LEKOIL also supports ENACTUS, an international not-for-profit organisation with a community of students, academic and business leaders. ENACTUS is committed to using the power of entrepreneurial action to transform lives and shape a better more sustainable world by providing a platform for teams of outstanding university students to create community development projects that put people's own ingenuity and talents at the centre of improving their livelihoods.

In addition, LEKOIL supports humanitarian response initiatives in partnership with the Murtala Muhammed Foundation ("MMF"), a non-profit organisation, with a mission to improve the living conditions of Africans by contributing to the reduction of poverty and the elimination of conflict, while promoting self-reliance and self-fulfilment. MMF seeks to be an institution that transcends all boundaries, dedicated to the socio-economic development of Africa. The MMF monitors disasters as they occur and assess their impact and the needs of the victims in order to determine how they can be addressed to provide relief and seek solutions in addressing the effects.

Environment

Nigeria's Environmental Impact Assessment Act ("EIAA") requires every company whose activity or project is likely to have a significant effect on the environment to carry out an impact assessment programme prior to the commencement of the project.

LEKOIL is committed to demonstrating leadership in stewardship of the environment, and in complying with the requirements and regulations in Nigeria, as well as in every other territory in which we operate. We believe we have demonstrated this commitment in our operations in the communities surrounding our Otakikpo development.

These outcomes do not happen by accident. They occur because of the technical expertise of our people and partners. They happen because of a strong leadership team. And they happen because we hold true to our values – especially our ability to think differently.

Outlook

Creating long-term value for our shareholders is our focus and thus the priority for 2019 is to advance toward the start of the appraisal drilling programme on Ogo in OPL 310. We will continue to work with our joint venture partner, Optimum and negotiate agreements that will allow us to make progress on the block, after securing all relevant regulatory extensions and approvals.

At Otakikpo we seek to grow production volumes with Phase Two development and expect to reach gross volumes of 15,000 to 20,000 bopd. The first step has already occurred, with 3D seismic data acquisition and interpretation now completed.

We continue to look at new, promising opportunities in-country that are consistent with LEKOIL's original portfolio strategy of securing assets with robust production and exploration upside. The Group will continue to focus on new ventures-driven growth for producing or near producing assets.

The next year should therefore provide key catalysts for value appreciation for shareholders as we move forward in building a leading Africa-focused exploration and production business.

On behalf of the Board, we would again like to thank all our people for their continued hard work and support as we build an exciting future for the Company. We would also like to thank LEKOIL's wider stakeholders – our local communities, our partners, our regulators in Nigeria, our lenders, and of course our shareholders.

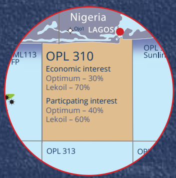
Samuel Adegboyega
Non-Executive Chairman

Olalekan Akinyanmi
Chief Executive Officer

18 June 2019

Timeline: Thinking differently

Eight years since the birth of LEKOIL, a steady stream of accomplishments.



February, 2013

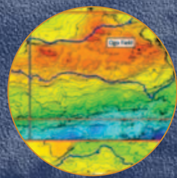
OPL310 Farm-Out Agreement signed

March, 2013

Pre-IPO fundraising is conducted

July, 2013

Equity placing raises approximately US$20 million. The net proceeds used to fund the drilling and testing of the Ogo-ST the OPL310 licence, offshore Nigeria



March, 2014

3D seismic programme covering 1500 sq km commences on the OPL310 licence, offshore Nigeria

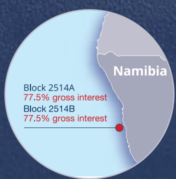
May, 2014

40% interest in Otakikpo Marginal Field on the OML11 licence, onshore Nigeria, acquired from Green Energy International

2010 | 2011 | 2012 | 2013 | 2014

December, 2010

LEKOIL is incorporated



June, 2012 Namibia

Blocks 2514A & B acquired

May, 2013

IPO raising US$50 million and admission to trading on AIM

June, 2013

Significant oil discovery from the high impact Ogo-1 well located on the OPL310 licence, offshore Nigeria

October, 2013

Significant oil discovery from the Ogo-ST well located on the OPL310 licence offshore Nigeria

November, 2013

Equity placing raises approximately US$100 million. Net proceeds are used to fund the completion of drilling and testing of the Ogo-1 well, Ogo-ST well and future development of OPL310.

Significant resource upgrade at the Ogo prospect on the OPL310 licence, offshore Nigeria. Post discovery, net recoverable resources attributable to LEKOIL from the OGO field etimated to be 232 mmboe (P50)

September, 2014

Otakikpo Marginal Field on the OML11licence, onshore Nigeria following a comprehensive review of subsurface data by AGR TRACS. Post Competent Persons Report, net 2C recoverable resources attributable to LEKOIL from Otakikpo estimated to be 20.43mmbbls

2015

1st Quarter, 2015

Rig mobilisation in the Otakikpo Marginal Field, followed by construction and subsequent commissioning of production facilities

September, 2015

First Oil from production tests at Otakikpo ahead of schedule and significantly exceeding expectations

October, 2015

$46 million equity raise and acquisition of 62% economic interest in OPL 325

December, 2015

Acquisition of Afren's Interest in OPL 310 giving LEKOIL a 40%participating interest,subject to Ministerial Consent

2016

LEKGAS

A LEKOIL COMPANY

April, 2016

LEKGAS set up as the gas midstream building strategic, commercial and technical partnerships

April, 2016

Otakikpo flow tests successfully completed at Otakikpo-002 and Otakikpo-003

October, 2016

$12.4 million equity raise to bring Otakikpo into commerical production

4th Quarter, 2016

Production to storage tanks begin

2017

1st Quarter, 2017

Continuous commercial production begins at Otakikpo

March 2017

Advance payment facility with Shell in place

2018

1st Quarter, 2018

Focus shifts to Phase II at Otakikpo targetting 20,000 bopd

CPR on OPL325 released showing oil-in-place volumes of 5bn barrels, intention to farm down

3D seismic acquisition begins at Otakikpo

4th Quarter, 2018

Plans underway for three to five well drilling programme at Otakikpo to increase production to 15,000 – 20,000 bopd

OPL 310 well locations selected

Financial review

In US$'000	2018	2017
Cash and cash balances	10,423	6,922
Outstanding debt financing less cash	10,062	22,587
Working interest revenue	48,687	30,848
Profit/(loss) for the year	(7,783)	6,496
Profit/(loss) per share	(0.02)	0.01
Cash flow used in operations	(1,569)	(11,712)

Overview

LEKOIL had its first full year of commercial oil production ending the year 2018 with an average production volume of 2,076 bopd, net. The year saw a concerted effort to reduce debt from vendor financing while we agreed in principle to refinance a portion of and redenominate outstanding Naira debt facilities totalling 3 billion Naira into United States Dollars (USD). This was finalised during March 2019 and provided a moratorium on the last two 2018 quarter principal repayments while the tenors were extended from June 2019 to June 2021.

The results reflect the first full year with production and net gearing has decreased to 17 per cent (2017: 31 per cent) providing the financial requirement to invest in the business. The Group recorded a total comprehensive loss of US$7.8 million for the year ended 31 December 2018 (2017: gain of US$6.5 million). Cash and cash balances at the end of the year were US$10.4 million (2017: US$6.9 million), with total outstanding debt financing net of cash significantly reduced to US$10.1 million (2017: US$22.6 million).

Production and Revenues

Revenues derived from a full year of commercial production from Otakikpo were US$48.7 million. Total production from the Otakikpo marginal field for the year was 1,951,249 gross barrels (2017: 1,560,125 gross barrels). The Group's entitlement crude was 1,346,525 barrels. Of these barrels, the Group lifted 1,305,888 barrels (2017: 1,188,732 barrels) and the balance of 40,637 barrels representing the Group's share of overriding royalty crude was lifted on its behalf by its joint venture partner based on an agreed lifting arrangement. The entitlement crude is comprised of equity crude of 739,106 (2017: 583,720 barrels (sales value US$30.8 million), cost recovery crude of 507,176 barrels (US$34.1 million) and GEIL cash call crude of 100,243 barrels (sales value US$6.6 million) (see Note 8(a)). The cost recovery crude is not included in revenue and is utilised to reduce pre-paid development costs borne by the Group on behalf of partner GEIL. The Group's realised oil price was US$65.64 per barrel for the year. The Group does not currently have oil price hedging in place apart from amounts required under the current debt facilities however as part of the Company's risk management strategy this approach will be reviewed during 2019.

Cost of sales, depreciation, impairments and administrative expenditure

Underlying cost of sales were US$18.1 million or US$23.2/bbl (2017: US$15.9 million or US$25.5/bbl). The decrease in cost per barrel was largely due to the cessation of rental charges for the 2017 early production facility ("EPF") and ancillaries. The permanent EPF ("PEPF") was commissioned during the year. Depletion and amortisation costs on oil and gas assets were US$7.9 million US$10.1/bbl (2017: US$6.2 million and US$9.9/bbl).

Operating expenses were US$7.9 million or US$10.2/bbl (2017: US$11.32 million and US$18.1/bbl). Operating expenses captures sole expenditure incurred on production operation support activities such as accommodation for field personal. This was significantly lower in 2018 compared to 2017, largely due to the discontinuation in the use of rented accommodation facilities on-site (US$0.03 million/ US$1.0 million for 2018 and 2017 respectively). In addition, there were lower recharges to Otakikpo operating expenses from common costs pool following increased activities in OPL 310 and others assets in 2018 compared to 2017 (US$1.7 million/ US$5.6 million for 2018 and 2017 respectively).

General and administrative expenses were US$19.1 million compared to US$17.0 million for the same period in 2017. The increase in general & administrative expenses in 2018 was largely due to a rise in personnel expenses and the associated oncosts, increases in IT costs and IT software to support higher staff numbers. Other contributing factors were increases in rental costs of accommodation for rotational employees in Lagos, plus increased consultancy costs and legal costs for new business development, and legal and consultancy costs relating to OPL 310.

Capital investment

The Group's capital expenditure for the year was US$12.3 million (2017: US$8.4 million) and focused on production facilities in the Otakikpo marginal field of US$10.4 million and exploration and appraisal activities of the Group's interests in OPL 310 and OPL 325 of US$1.9 million.

Taxes

As a Nigerian producing business, the Group is subject to the Petroleum Profit Tax Act of Nigeria (PPTA) and the Company Income Tax Act of Nigeria (CITA). Tax expense for year was US$10.1 million. (2017: tax benefit of $21.3 million.) The variance year on year is due to the increase in earnings and assessable profit in 2018 compared to 2017.

Profit/(loss) for the year and loss per share

The Group recorded a total comprehensive loss of US$7.8 million for the year to 31 December 2018 (2017: gain of US$6.5 million) and a basic and diluted loss per share of US$2 cents (2017: profit of US$1 cent).

Cash and bank balances

The Group had cash and bank balances of US$10.4 million as at 31 December 2018 (2017: US$6.9 million). Restricted cash of US$3.2 million (2017: US$3.3 million), which represents cash funding of the debt service reserve accounts for two quarters of interest for the FBN Capital Notes and one quarter of interest and principal payment of the Shell Western facility, has been reported as part of other assets.

Assets and liabilities

The Group's non-current assets were US$194.9 million as at 31 December 2018 (US$210.4 million at 31 December 2017), reflecting depreciation, depletion and amortisation of oil and gas assets during the year, and reduction in deferred tax assets to US$18.3 million (2017: US$23.2). Current assets, which represent the Group's cash resources, other assets and other receivables, decreased from US$66.1 million as at 31 December 2017 to US$31.5 million as at 31 December 2018. The decrease is a result of a reduction in pre-paid development costs

Loans and borrowings

The Group had the following debt facilities in place at year end:

In US$'000	Interest rate p.a.	2018	2017
US$10 million FBNC Capital Dollar Facility	10% + LIBOR	**4,831**	5,828
4.5 billion Naira FBNM Naira Facility	6% + NIBOR	**–**	7,212
FBNC Facility (for Redenomination)	10% + LIBOR	**8,191**	–
US$15 million Shell Facility	10% + LIBOR	**7,463**	13,275
5 billion Naira Sterling Bank Facility	26%	**–**	2,191
US$5 million FBNM Working Facility	11.25% + LIBOR	**–**	1,003
Total		**20,485**	29,509
Less borrowings, current		**(11,439)**	(17,317)
Borrowings, non-current		**9,046**	12,192

Please refer to Note 28 in the financial statements for a further breakdown.

which relate to the Otakikpo field cost recovery arrangement under the GEIL farm out agreement. Inventories which consist of the Group's share of crude stock increased from US$1.1 million as at 31 December 2017 to US$1.6 million as at 31 December 2018.

Current liabilities consist of the loan facilities set out above due within twelve months, amounting to US$11.4 million (31 December 2017: US$17.3 million), trade and other payables amounting to US$13.6 million (31 December 2017: US$32.5 million) and income tax payable amounting to US$5.1 million (31 December 2017: US$1.9 million). There was a concerted effort during the year to pay off vendor financing from prior periods, as can be seen by the improved gearing position and large reduction in liabilities (total liabilities US$41.0 million in 2018, down from US$70.7 million in 2017).

Dividend

The Directors do not recommend the payment of a dividend for the year ended 31 December 2018 (2017: Nil).

Accounting policies

The Group's significant accounting policies and details of the significant judgments and critical accounting estimates are disclosed within the notes to the financial statements. The Group adopted IFRS 9 and IFRS 15 during the year and the impact to the financial statements have been disclosed in notes to the financial statements. Other than IFRS 9 and IFRS 15 adoption, there were no material changes to its accounting policies in the year ended 31 December 2018.

Liquidity risk management and going concern

The Group closely monitors and manages its liquidity risk and ability to service debt as it falls due. Cash forecasts are regularly produced, and sensitivities run for different scenarios including (but not limited to) changes in production rates and commodity pricing, and cost overruns for approved projects.

At 31 December 2018, the Group had liquid resources of approximately US$10.4 million in the form of cash and bank balances available to meet capital, operating and administrative expenditure.

During the year we agreed in principle to refinance a portion of and redenominate outstanding Naira debt facilities totalling 3 billion Naira into United States Dollars (USD). This was finalised during March 2019 and provided a moratorium on the last two 2018 quarter principal repayments. The tenors were extended from June 2019 to June 2021, giving the Group additional headroom owing to a reduction in interest rate and the principal payment moratorium.

LEKOIL is taking action to manage its operating costs and overheads and is implementing a cost review to look at measures to reduce overheads by 25%. Board remuneration will be reduced by 25%.

There is however a material uncertainty that can cast a significant doubt on the Group's ability to continue as a going concern which is discussed below:

- The ability of the Group to maintain steady state production and lifting on the Otakikpo marginal field;
- The operational success of the Otakikpo Phase 2 field development and planned growth in production to around gross 15,000 – 20,000 bopd (net to LEKOIL 6,000 – 8,000 bopd);
- Commodity pricing given there is no oil price hedging currently in place other than that required by lenders for debt service;
- Availability of financing for development of OPL 310, which is not currently factored into the cash forecasts;
- Ability to defer capital activities to future periods;
- Financing available from debt markets, equity markets and/or alternative sources of capital; and
- Approvals:
  - Joint venture and DPR approvals for Phase 2 Otakikpo field development;
  - Ministerial approvals for the Afren acquisition and, hence the OPL 310 22.86% working interest; and
  - OPL 310 license extension.

The Directors have determined that over the course of the next 12 months and taking into consideration the factors mentioned above, there is a reasonable expectation that there will be sufficient sources of funds for the Group. In making their assessment, the Directors have considered the Group's current cash position and the generation of funds from forecast production over the period, against the need to service the Group's debt portfolio, and tested the scenarios at different commodity prices. The Board may consider raising further funds from either the equity or debt markets or industry sources during the year to provide further headroom and ensure the Group has the necessary resources to fund future growth.

The annual consolidated financial statements therefore have been prepared on the going concern basis of accounting, which assumes the Group will continue in operation for the foreseeable future and be able to realise its assets and discharge its liabilities and commitments in the normal course of business.

Lisa Mitchell
Chief Financial Officer

18 June 2019

Board of Directors

Samuel Adegboyega, Non-Executive Chairman

Samuel, has over 30 years' experience in the oil and gas industry, and is currently Managing Director of SOWSCO Well Services (Nig.) Ltd., in Port Harcourt, Nigeria. Samuel is a member of the Board of Trustees Ile-Oluji Economic Summit Group, a traditional local community leadership organisation as well as being a founding member of S.T. Adegboyega & Co., a Nigerian law firm.

Samuel is a founding member and current Executive of the Petroleum Technology Association of Nigeria, an association formed to bring together Nigerian oil and gas entrepreneurs. Samuel graduated from the University of Ibadan with a degree in Petroleum Engineering.

Olalekan Akinyanmi, Chief Executive Officer

Olalekan ('Lekan') is the founder and Chief Executive Officer of LEKOIL Limited. Since inception, he has led the Company through an IPO and subsequent fundraises of over US$200 million on the London Stock Exchange's AIM market.

Lekan has over 20 years' experience in the oil and gas industry and was the International Energy Sector Head at AllianceBernstein L.P. in New York (Global asset manager with over US$400 billion under management) with direct responsibility for a US$1 billion Energy and Natural Resource Portfolio.

Prior to that he was a member of the #1 institutional investor-ranked team of analysts covering the oilfield services industry as an Associate Director at UBS Investment Research. Lekan has held Engineering and operational roles within Schlumberger in a career that spanned Nigeria, Egypt, Pakistan, Oman and Scotland.

Lekan graduated from the Obafemi Awolowo University in Nigeria with a Bachelor of Science Degree in Electronic and Electrical Engineering and also holds an MBA from Massachusetts Institute of Technology (MIT) Sloan School of Management. He is also a Member of the Society of Petroleum Engineers.

Lisa Mitchell, Chief Financial Officer (appointed 27 September 2017)

Lisa is a Certified Practising Accountant (Australia) who was most recently CFO and Executive Director of Fastjet plc (AIM: FJET), the African focused low cost airline based at Gatwick Airport. Prior to that, she was CFO at Ophir Energy plc (LSE: OPHR) and responsible for contributing to the overall business strategy; leading the finance function and providing financial support for all M&A activity. Lisa's previous career included stints with Pan Pacific Petroleum NL (ASX and NZX listed), GCM Resources plc (AIM: GCM), CSL Limited – in Australia and the US and Mobil Oil Australia. She holds a Bachelor of Economics (major in Accounting) degree from La Trobe University, Melbourne and a Graduate Diploma Applied Corporate Governance.

Gregory Eckersley, Non-Executive Director

Gregory ("Greg") has 25 years experience in international financial markets. He was until recently, the global head of the Abu Dhabi Investment Authority's internal equities department, where he oversaw portfolios, risk management and the due diligence process.

Prior to joining the Abu Dhabi Investment Authority, Greg worked for AllianceBernstein L.P. in New York, where he acted as Senior Portfolio Manager, leading a team responsible for the construction, management and risk control of multiple global and international growth equity portfolios. Prior to this appointment he was with AllianceBernstein in South Africa as Chief Executive of its regional offices, Draycott Partners, Century Asset Management and CIGNA International Investment Advisors in London.

Greg graduated from Oxford University in 1987 with a degree in Philosophy, Politics and Economics (PPE), where he also received a Rhodes scholarship. He then undertook a programme in Investment Management and Modern Portfolio Theory at the London Business School.

Aisha Oyebode, Non-Executive Director

Mrs. Aisha Oyebode is the CEO of the Murtala Muhammed Foundation and Group Chief Executive Officer, Asset Management Group (AMG) Limited. Prior to becoming CEO, Aisha was the Executive Director of AMG from October 1991 – June 1993. Aisha is a legal practitioner with an LL.M (Public International Law) from Kings College, University of London and a Masters in Business Administration (MBA) with a distinction in Finance from Imperial College, University of London.

Mrs. Oyebode has several years of practical experience in corporate and litigation matters having worked in the prestigious law firm of Ajumogobia, Okeke, Aluko and Oyebode. She was called to the Nigerian Bar in 1989. She has completed several attachments with global financial institutions which include Caisse Privee Banque, Brussels; Banque Rivaud, Paris; and Banque Privee, Geneva. Aisha also serves as a member of various boards.

John van der Welle, Non-Executive Director

John, has over 25 years' oil industry experience, having qualified as a chartered accountant with Arthur Andersen in 1981. He is a member of the Association of Corporate Treasurers and the Institute of Taxation.

After 11 years at Enterprise Oil where he was Business Development Manager and subsequently Group Treasurer, John has been Finance Director of a number of listed E&P companies, including Premier Oil between 1999 and 2005.

He was Managing Director and Head of Oil and Gas at the Royal Bank of Scotland in 2007-2008 and, since 2010 has worked as a consultant to, and Non-Executive Director of, a number of listed and private E&P companies including Hurricane Energy Plc.

H. Adesola Oyinlola, Non-Executive Director

Mr. H. Adesola ('Sola') Oyinlola brings a wealth of industry experience to the Board. He was most recently Chairman of Africa at Schlumberger and was also the President of the Schlumberger Foundation, a non-profit corporate foundation. Having worked with Schlumberger for 30 years, Sola has held a number of senior operational positions across the world, including Vice President and Global Treasurer, and Managing Director for Nigeria and West Africa.

Sola is a co-founder of the Petroleum Club of Lagos and serves on a number of boards including Guaranty Trust Bank plc and the Schlumberger Foundation. He has a passion for human capital and host community development, as evidenced by his participation in issues of economic development, inclusion, and mentoring. He holds a BSc in Accounting from the University of Ghana, and an MBA from Stanford University. He is an alumnus of the Oxford Institute for Energy Studies.

Tom Schmitt, Non-Executive Director

Tom is president of Hunt Refining Company in Alabama. Prior to this, he was senior vice president with Hunt Oil Company for Hunt's development in Kurdistan, Iraq. He began his career as a petroleum engineer with the Atlantic Richfield Corporation working in production, drilling, operations/reservoir engineering, enhanced oil recovery research, strategic planning and acquisition evaluation. In 1996, he left the oil industry for a career in finance and joined Alliance-Bernstein, becoming co-manager of the Global Research Growth Fund, a product that grew assets to over $65 billion. Tom earned a BS in chemical engineering from Missouri University of Science and Technology and an MBA from the Harvard Business School.

Directors' report

For the year ended 31 December 2018

The Directors submit their Annual Report on the affairs of the Group together with the financial statements and audit report for the year ended 31 December 2018. The remuneration report on pages 30 to 33 forms part of this Directors' report

Principal activity

The principal activity of the Group is the exploration for, and production of oil and gas.

Domicile

The Parent Company, LEKOIL Limited, is a public limited company and is registered in the Cayman Islands.

Results and dividend

The Group loss for the year ended 2018 was US$7.8 million (2017: gain of US$6.5 million). The Directors have not recommended the payment of a dividend (2017: US$ Nil).

Directors and their interests

The Directors who served during the year are listed below. Their beneficial interests in the share capital of the Company at 31 December 2017 and at 31 December 2018, were as follows:

	At 31 December 2018 Number	At 31 December 2017 Number
Sam Adegboyega	**1,160,000**	1,160,000
Olalekan Akinyanmi	**39,332,551**	39,332,551
Greg Eckersley (and Family)	**3,003,050**	3,003,050
Aisha Oyebode	**256,250**	256,250
John van der Welle	**–**	–
Hezekiah Adesola Oyinlola	**632,431**	632,431
Thomas Schmitt	**–**	–
Lisa Mitchell	**–**	–

LEKOIL Nigeria Limited Directorate Change

On 1 February 2019, the Central Bank of Nigeria ("CBN") issued a directive that all directors of Nigerian companies, whether non-Nigerian or non-resident must register their personal data, biometrics and other personal information into a bank verification system[(1)] ("BVN") by 30 April 2019. Failure to adhere to this directive would risk the Company's access to its bank accounts.

Prior to this directive, only the non-Nigerian directors of LEKOIL Nigeria, not being signatories to any Nigerian bank accounts, did not have BVNs. In order not to be in breach of the CBN directive, those Directors resigned from the Board of LEKOIL Nigeria. Notwithstanding these changes the Shareholders Agreement signed between the shareholders of LEKOIL Nigeria – of which LEKOIL Ltd is the largest shareholder – when the Company was listed in 2013, remains in place to protect and enforce the rights of LEKOIL Ltd at the Nigerian level.

Substantial shareholders

As at 24 April 2019, the following Shareholders held 3% or more of the nominal value of the Company's shares carrying voting rights:

	Number of ordinary shares	% of share capital
Zion SPC - Access Fund SP	66,927,015	12.47
Allan Gray Investment Management	42,381,305	7.90
Capital Group	40,810,037	7.61
Olalekan Akinyanmi	39,332,551	7.33
Baron Capital Management	38,184,605	7.12
IFM Independent Fund Management	26,987,000	5.03
RWC Partners	26,916,147	5.02
River and Mercantile Asset Management	25,250,000	4.71
Jennison Associates	23,939,552	4.46
Hadron Capital	19,875,910	3.70

(1) The Bank Verification Number ("BVN") system was implemented by the CBN to curb or reduce illegal banking transactions in Nigeria. It involves the registration of personal data, biometrics and other personal information of the subject into a biometric identification system that allocates unique identity numbers that can be verified across the Nigerian Banking Industry to each registered person in the database of the Central Bank of Nigeria.

Review of business and future developments
A review on the operations of the Group is contained in the Chairman's & CEO's statement on pages 2 to 9 and Financial Review on pages 12 and 13.

Financial risk management
The Group's risks to financial instruments are outlined on pages 77 to 80.

Directors' indemnity and insurance
The Group provides indemnity to Directors in respect of liabilities incurred as a result of their office. However, neither the indemnity nor the insurance provides cover in the event that the Director is proven to have acted dishonestly or fraudulently.

Post-reporting date events
All events that have occurred since the year end which require reporting have been disclosed in the consolidated financial statements (see Note 34).

Health, safety and environment
The Group has an overriding commitment to health, safety and environmental responsibility. The Group works closely with host governments and communities in the country in which it operates, together with its contractors and partners, to ensure internationally recognised standards are implemented and maintained along with compliance to local legislation.

The Group's activities are subject to the relevant environmental protection legislation. The Group closely monitors its activities to ensure to the best of its knowledge there is no potential for the breach of such regulations. There have been no breaches of these Acts recorded against the Group during the reporting period.

Financial instruments
Details of the use of financial instruments by the Group are contained in Note 3(e) of the consolidated financial statements.

Directors' responsibilities
The Directors are responsible for preparing the Annual report and the consolidated financial statements in accordance with applicable law and regulations.

Under the AIM Rules, the Directors are required to prepare financial statements for each financial year. The Directors have elected to prepare the Group's consolidated financial statements in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union. The Directors will not approve the consolidated 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 period. The Directors are also required to prepare the consolidated financial statements in accordance with the rules of the London Stock Exchange for companies trading securities on the Alternative Investment Market.

In preparing these consolidated 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 they have been prepared in accordance with IFRS as adopted by the European Union, subject to any material departures disclosed and explained in the consolidated financial statements; and
- prepare the consolidated financial statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

The Directors are responsible for keeping adequate accounting records 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 and enable them to ensure that the consolidated financial statements comply with IFRS. 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.

Directors' report
Continued

Board and Committee meeting attendance during the year 2018

Attendance	Board	Remuneration Committee	Audit Committee
Sam Adegboyega	8	–	–
Olalekan Akinyanmi	8	–	–
Greg Eckersley	7	5	4
Aisha Oyebode	8	5	–
John van der Welle	8	5	4
Hezekiah Adesola Oyinlola	8	–	4
Lisa Mitchell*	8	–	–
Thomas Schmitt	8	–	–

* LEKOIL announced the resignation of Lisa Mitchell on 17 May 2019, which will take effect after the annual report and accounts of the Company for the financial year ending December 2018 has been finalised and published.

Going concern
The Directors have assessed the ability of the Group to continue as a going concern having prepared detailed cash, funding and liquidity forecast through to 30 June 2020. The Directors believe that the Group will be able to meet financial obligations through a combination of internal and external funding. Details on the going concern disclosure are shown in Note 2(b) to the financial statements.

Governance
LEKOIL formally adopted the Quoted Companies Alliance Corporate Governance Code for Small and Mid-Size Quoted Companies ("QCA Code") and its replacement, the QCA Corporate Governance Code that was published in April 2018, in line with the London Stock Exchange's changes to the AIM Rules requiring all AIM-listed companies to adopt and comply with a recognised corporate governance code. LEKOIL recognises the importance of sound corporate governance commensurate with the size and nature of the Company, even though there is no applicable regime of corporate governance to which Directors of a Cayman Islands company must adhere to over and above the general fiduciary duties of care, diligence and skill imposed on such Directors under Cayman Islands law.

The Company updated its policies in line with the EU Market Abuse Regulation ("MAR") with effect from 3 July 2016.

The Group continues to implement the following internal policies in order to provide guidance on Corporate Governance issues. These policies are reviewed periodically to ensure continued relevance:

- Related Party Transactions Policy
- Disclosure and Insider Trading Policy
- Share Dealing Code
- Whistleblowing Policy
- Anti-Bribery Policy
- Code of Ethics
- Safety, Health, Environment and Security Policy

Related Party Transaction Policy
The Related Party Policy outlines the procedure for identifying related parties and interests and regulates the disclosure and approval requirements for transactions with such parties ("Related Party Transactions") within the Group, its associates and affiliates. The Related Party Policy provides guidelines and procedures on dealing with Related Party transactions and compels all employees and Directors of the Company to fully understand and adhere to their responsibilities and obligations in respect of such transactions.

Disclosure and Insider Trading Policy
The Company is required to comply with the AIM rules and regulations, MAR and the Financial Conduct Authority's Disclosure Guidance and Transparency Rules relating to the disclosure and control of inside information. The purpose of the Disclosure Policy is to help the Company comply with these rules on an ongoing basis by ensuring both timely and orderly communication of key information concerning the Company to shareholders, the stock market as a whole and to the press.

The Disclosure Policy provides varying authority levels and consultation requirements for information released to the public including shareholders, the press, brokers or others, as well as authority levels to issue communications in relation to the Company's affairs generally, including in particular major announcements such as the preliminary and half-year results and any announcements concerning major business developments.

In addition to disclosure regulations by the Company the Insider Trading Policy places an overriding obligation on the Company and its Directors to manage "inside information" as stated in the policy both internally and externally, in order to prevent market abuse, insider dealing and similar offences by persons in possession of inside information.

Share Dealing Code
The Share Dealing Code applies to all employees, Directors, and persons "associated" with employees and Directors of the Company and sets out the rules governing the dealing in its shares and related securities by those persons. The Share Dealing Code is intended to serve as a guide to its employees in the various legal requirements relating to dealing in the Company's shares and related securities.

The fundamental principle is that as a matter of law no person should deal in the shares or securities of the Company at any time when they are or may be regarded as privy to insider information.

Whistleblowing Policy
The objective of this policy is to support the Group's values by encouraging all employees to report the occurrence of any misconduct (irrespective of location) by employees, Directors or associates of the Group that affects the business of the Group; without fear of risk to themselves or any inhibition or victimisation.

Anti-Bribery Policy
The purpose of this policy is to reinforce the Group's reputation for integrity and responsibility and its business principle of zero tolerance to bribery and corruption by providing a framework to guard and promote the Group's position in this regard.

This Policy applies not only to Directors or employees of the Group but also to agents, intermediaries, consultants, joint venture or other business partners and any other persons, organisations or bodies doing business with the Group.

Code of Ethics
The Group is committed to the highest standards of ethical and professional conduct. The Code of Ethics (the "Code") provides basic guidelines for business practices, professional and personal conduct which each Director and employee is expected to adopt and uphold.

The Code also serves as the Group's creed to ensure transparency, accountability and openness in all its dealings and activities conducted to promote public trust and confidence in the Group amongst its staff and/or Directors.

Safety, Health, Environment and Security ("SHES") Policy
The Group is committed to understanding, managing and reducing the environmental impact of its activities and implements internationally recognised environmental management systems to achieve this goal. The SHES Policy assists the Group in enforcing the health, safety and welfare of its employees in the work place as well as ensuring the protection of its business partners and surrounding community at its sites of operations.

Website publication
The Directors are responsible for ensuring the annual report and the financial statements are made available on a website. Financial statements are published on the Company's website in accordance with legislation in the United Kingdom governing the preparation and dissemination of financial statements, which may vary from legislation in other jurisdictions. The maintenance and integrity of the Company's website is the responsibility of the Directors. The Directors' responsibility also extends to the ongoing integrity of the financial statements contained therein.

Auditor
All of the current Directors have taken all the steps that they ought to have taken to make themselves aware of any information needed by the Company's auditor for the purposes of their audit and to establish that the auditor is aware of that information. The Directors are not aware of any relevant audit information of which the auditor is unaware.

Deloitte & Touche Nigeria have expressed their willingness to continue in office and a resolution to re-appoint them will be proposed at the next annual general meeting.

By order of the Board

Gloria Iroegbunam
Company Secretary

18 June 2019

Corporate Governance Framework

Chairman's statement

As Chairman, it gives me great pleasure to introduce our first Corporate Governance Statement. I am responsible for leading the Board and upholding high standards of corporate governance throughout the Group and particularly at Board level.

LEKOIL formally adopted apply the Quoted Companies Alliance Corporate Governance Code for Small and Mid-Size Quoted Companies ("QCA Code"), in so far as it was deemed appropriate for the Company. As the Company is listed on AIM, it is required from September 2018, to provide details of how it complies with a recognised corporate governance code on a comply or explain basis and the Board of Directors have decided to continue to apply the QCA Code. An update of the QCA Code was published in April 2018 (the "New QCA Code"), in line with the London Stock Exchange's changes to the AIM Rules requiring all AIM-listed companies to adopt and comply with a recognised corporate governance code.

High standards of corporate governance are a priority for the Board and we recognise that there are areas where the Company's governance structures and practices differ from the principles set out in the New QCA Code. We will undertake to review the governance structures, procedures and disclosures we make as we consider good corporate governance key in the creation of value for our shareholders and in growth for the Company over the medium to long-term. The report below demonstrates how the New QCA Code has been applied by the Board, and where we have departed from it, an explanation has been provided.

We are very strict in enforcing Closed Periods for our employees with respect to trading in shares of LEKOIL. All our employees receive regular training as well as updates on the start and end dates of blackout periods to ensure compliance with insider trading regulations.

Further information on our compliance with the New QCA Code is provided on the Company's Website.

Samuel Adegboyega
Non-Executive Chairman
LEKOIL Limited

18 June 2019

Delivery of growth

Information on our strategy and growth plans for the business are included in the Chairman's and CEO's Statement on pages 2 to 9 of this Annual Report and Accounts for the year ended 31 December 2018 (the "2018 Annual Report").

Our key objective is to create sustainable long-term value where our low-cost, Africa focused long-life asset base creates the high-margin cash flow that funds our growth, reduce our debt and deliver shareholder returns. As a responsible operator, LEKOIL manages above-ground risks with the same rigour and focus with which it manages the below-ground technical challenges of exploring for and producing oil and gas. We are committed to sustaining high levels of safety, environmental and social performance across our operations. To facilitate this, we have enacted mandatory policies and standards to guide operational responsibility and to which we hold all employees and contractors accountable. Our organisational structure makes clear the accountability of Business Delivery Teams for operational delivery in accordance with these requirements and the Corporate Centre's accountability for structured and independent assurance. We have continued to strengthen and clarify these policies and standards to ensure compliance and robust risk management.

Obligations to our stakeholders

We are committed to communicating openly with our shareholders to ensure that our strategy is clearly understood, and we take our responsibilities in the communities we operate in very seriously and care about our environment and value our employee's welfare highly. Details of our work in these areas, and of our business model, the key resources and relationships to the business and stakeholder feedback are contained in the Corporate Governance section of our website.

Review of risks
The Board is responsible for setting the Group's risk philosophy and appetite and approving the overall risk management policy. It is responsible for maintaining a sound system of internal control that supports the achievement of its goals and objectives.

The Board is also responsible for overseeing the establishment, implementation and review of the Group's risk management systems and, to this end, has delegated certain functions relating to risk to the Audit and Risk Committee and to management.

We have adopted a Risk Management Policy which identifies financial and internal controls; business continuity risks, corporate governance risks, security risks and health, safety and environment protection risks. It is intended that reporting is required from each functional group head or business unit leader and consists of quarterly management information reports assessing material changes within the risk profiles.

The Chief Financial Officer collates management risk reports and presents them to the Audit and Risk Committee, in the form of a Group-wide Risk Register, for consideration at least twice a year. The Audit and Risk Committee then reports on its activities and makes recommendations to the Board as appropriate.

Statements on the Group's risk management and internal control systems and the principle risks and uncertainties facing the Group and steps taken to mitigate these risks are below.

Management framework
The Board comprises of a Non-Executive Chairman, five independent Non-Executive Directors and two Executive Directors. The Company believes that this governance structure is comparable to that of peer companies of a similar size and market capitalisation.

Corporate Governance arrangements will be an area of focus for the Board in 2019. We consider that our current Board composition is appropriate, and that we have a sufficient number of independent Non-Executive Directors. The Board is provided with information and documentation of a high standard and is supported by its Audit and Remuneration Committees.

The Board considers that currently the size of the Group does not justify the establishment of a formal nominations committee, and consequently all the Directors play an active part where any Director replacements/additions are required.

Under their appointment letters, LEKOIL may call on the Directors to spend at least 20 days per year on Company business.

The attendance record of the Directors is provided on page 18 of this Annual Report.

Directors
We believe that our Board has the appropriate balance of skills, experience and capabilities required to direct the Group. Board diversity from various perspectives is considered an important matter by the Board and membership of our Board includes one female Director and members from various backgrounds. These include sector-specific experience in the oil and gas industry, as well as more general finance, accounting and business management skills.

Details of the current Directors, their background and experience, is shown on pages 14 and 15 of this Annual Report.

The Board is supported by the Audit and Remuneration Committees, the terms of reference of which can be found on our website. The Report of the Audit and Risk Committee is shown on pages 24 to 29 of this Annual Report, and the Report of the Remuneration Committee is shown on pages 30 to 33. These reports detail the work carried out by these committees during the year.

The advisers of the Company are listed on page 81 and 82 of this Annual Report and on the AIM Rule 26 section of the website. Their roles are financial and nominated advisor("Nomad"), brokers to the Company and legal advice is sought as required.

The Company Secretary provides briefings to the Board on corporate governance matters, noted in particular the new rules under the New QCA Code, and organises trainings for the Directors which in the past have included training on the UK Bribery Act and Market Abuse Regulations amongst others. All Directors are expected to commit and take responsibility for their own development during their tenure.

Although the Company, due to the size of the Board and the focus on the Company's strategic growth, has not carried out a formal Board evaluation exercise, we recognise the importance of assessing the performance of the Board and will look to carry out the exercise within the next 12 months.

The performance evaluation of the Chief Executive Officer and the Chief Financial Officer is carried out by our Remuneration Committee, using metrics set in the preceding year, to be achieved during the following year. These metrics essentially measure the extent to which the Executive Director is leading the organisation to accomplish its goals; whether they are leading the organisation to deliver results in the short- and longer-term; to what extent is the Executive Director's leadership consistent with our values and our beliefs about what skills they need to be effective; and the implications of the performance review in terms of the Executive Director's role, areas in which they should continue performing well, and areas in which they can improve.

Succession planning is regarded by the Board as vitally important in maintaining a 'strong bench' and the continued success of the business. Through regular reviews and management discussions, the Company's future business leaders are identified, and personal development plans are put in place to harness their potential and plan for job growth and career progression. In practice, the Chairman and the Chief Executive lead on the Board nomination and appointment process. They consider the balance of skills, knowledge and experience on the Board and make appropriate recommendations for consideration by the whole Board. Each Board member is invited to meet with the candidate. This process has been used effectively for a number of years and has led the Board to remain of the view that it should continue to operate in this way rather than through a more formal nomination committee. Other senior appointments are made by the Chief Executive in discussion with the Chairman. We expect the Board evaluation process to evolve over time so that it becomes linked to succession.

Culture

We have established a vision and mission and our core values which are based on integrity, professionalism, respect, innovation and creativity, drive and team-work and collaboration. These values set the themes for our culture and guide the objectives and strategy of the Company, which is reinforced to all members of staff on a quarterly basis by the CEO during regular town-hall meetings.
A culture of ethical behaviour aligned to our values and a robust quality management system are central to how we run the business. Through clear corporate governance policies, supported by robust risk, assurance and performance management processes, we manage the opportunities and risks in our operations and respond to the concerns of our shareholders and stakeholders.
The Board incentivises such good governance and risk management measures through a set of Key Performance Indicators ("KPIs") in our corporate scorecard, which are used to determine Executive Directors' and employees' variable, performance-related compensation. Our strategy in pursuing new opportunities is to target assets that will yield high margins and cash flow in the near term. Our focus is where we can apply superior technical knowledge to improve our chances of success. Commodity price is critical to the success of our business. Once a year in our planning cycle we set the long-term crude price for evaluation of future opportunities as well as projection of revenue for current production. A Low Case scenario is also determined to ensure downside protection should any major geopolitical and/or industry shift cause a major, downward revision in market price for crude.

As outlined above, corporate social responsibility, as detailed on pages 8 and 9 of this Annual Report, is very important to us as a business. LEKOIL is committed to demonstrating leadership in stewardship of the environment, employee health and safety and social responsibility. Our responsibilities and the related regulations applicable to us are also set out on the corporate social responsibility section of the LEKOIL website.

The Executive Directors work in an open plan environment in the respective LEKOIL offices, which provides them with plenty of opportunities to see and hear how people interact both with their work colleagues and others outside of the business (and would enable them to address matters if they were at odds with the Company's culture).

Our Anti-bribery and Corruption Policy is shown on our corporate website (see https://www.LEKOIL.com/general-business-principles) which is referenced in the Company's contracts with vendors. The policy confirms that the Group has a zero-tolerance stance on bribery and repeats the Board's expectation that everyone behaves professionally, respectfully and with integrity at all times.

The Anti-bribery and Corruption Policy along with all the other Group policies, are circulated to all staff during regular corporate governance policy training exercises and is located on the Company's intranet website.

Experience to date suggests that the Group policies are effective and staff members are aware of them.

In order to create a more ethical organisational culture, the has adopted a combination of the following practices:

1. Role models and visibility: Our senior management sets the standard as role models of acceptable behaviour for employees in the workplace. This behavioural standard when observed (by subordinates) sends a positive message for all employees.

2. Communication of ethical expectations: In order to reduce ethical ambiguities, we disseminate our organisational code of ethics on our corporate intranet and regularly send email refreshers to all employees. It states LEKOIL's core values and the ethical rules that employees are expected to follow. Members of senior management are required to model ethical behaviours as outlined in the code of ethics.

3. Ethics training: We periodically run seminars, workshops, and similar ethical training programs which are used to reinforce the Company's standards of conduct, to clarify what practices are and are not permissible, and to address possible ethical dilemmas.

4. Visible rewards and sanctions: Our performance appraisals of managers include a point-by-point evaluation of how his or her decisions measure up against the organisation's code of ethics. The appraisals include the means taken to achieve goals as well as the ends themselves. Visible rewards to be awarded to staff who act ethically and just as importantly, unethical acts are sanctioned and documented.

5. Provide protective mechanisms: The Group provides formal mechanisms that allow employees to discuss ethical dilemmas and to report unethical behaviour without fear of reprimand. As result a whistle blowing policy for example, is in place and this allows staff to raise any concerns in confidence directly with the Chief Executive Officer, Chairman of the Audit Committee or the Secretary.

Further information

The Corporate Governance section of our website sets out our approach to corporate governance, and the roles and responsibilities of the Chairman, Chief Executive and any other Directors who have specific individual responsibilities or remits (e.g. for engagement with shareholders or other stakeholder groups) are shown.

The roles and terms of reference of the Audit and Risk Committee and Remuneration Committee, and a formal written schedule of matters reserved for the Board are also shown on the website.

We will be expanding our website disclosures to include more detail on the specific roles and responsibilities of the Chairman, Chief Executive and any other Directors who have specific individual responsibilities or remits (e.g. for engagement with shareholders or other stakeholder Groups).

Previous annual reports and other corporate documents, including notices of all general meetings held in the last five years, are also available on the website.

Audit and Risk Committee

I am pleased to present the report on behalf of the Audit and Risk Committee ("Audit Committee" or "Committee"). This is the first year the Company has presented an Audit Committee report.

Composition

The Committee is composed of John van der Welle as Chair, Gregory Eckersley[1] and Hezekiah Adesola Oyinlola all of which are independent, Non-Executive Directors and have significant recent and relevant financial experience. John is a Chartered Accountant and has held a number of board and senior financial positions in listed international E&P companies.

Role and responsibilities

The Committee's terms of reference designate the role and responsibilities of the audit committee. These are available on LEKOIL's website www.LEKOIL.com

The main duties of the Committee are:

(a) To monitor in discussion with the auditors the integrity of the financial statements of the Company, and any formal announcements relating to the Company's financial performance, reviewing significant financial reporting issues and judgements contained in them;

(b) To review the Company's internal financial controls and, unless expressly addressed by a separate Board risk committee composed of independent Directors, or by the Board itself, to review the Company's internal control and risk management systems;

(c) To monitor and review the effectiveness of the Company's internal audit function and, where there is no internal audit function, consider annually whether there is a need for an internal audit function and make a recommendation to the Board;

(d) To make recommendations to the Board, for it to be put to the shareholders for their approval in general meeting, in relation to the appointment, re-appointment and removal of the external auditor and to approve the remuneration and terms of engagement of the external auditor;

(e) To review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process, taking into consideration relevant UK professional and regulatory requirements;

The CEO and CFO and the external auditors may attend Committee meetings by invitation. Gloria Iroegbunam acts as Secretary to the Committee. The Committee met 4 times in the 2018 year. I report to the Board following an Audit Committee meeting and minutes are available to the Board.

2018 financial reporting

The Committee reviews whether suitable accounting policies have been adopted and whether management has made appropriate judgements and estimates. The Committee reviews accounting papers prepared by management providing details on the main financial reporting issues and judgements as well as assessments of the impact of potential new accounting standards. The Committee also reviews reports provided by the external auditor on the annual and interim results which highlight any observations from the work they have undertaken.

The following are the main key judgements and new accounting standards that were considered by the Committee in its review of the 2018 full year Financial Statements:

- Going concern basis of accounting;
- The carrying value of the Otakikpo field and indicators of impairment;
- The carrying value of the OPL 310 asset and impairment indicators;
- Assessment of impairment indicators relating to the OPL 325 and Namibian assets; and
- The impact of new accounting standards IFRS9 (Financial Instruments) and IFRS15 (Leases).

Risk management and internal controls

The risk and control management framework of the Group is designed to manage rather than eliminate the risk of failure to meet the Group's objectives and the system can only provide reasonable and not absolute assurances against material misstatement or loss. The Group faces a number of risks, the significant ones of which are set out in the section on Principal Risks and Uncertainties on pages 26 to 29.

(1) Gregory Eckersley will step down from his role as a member of the Audit and Risk Committee during the period he is acting as the interim Chief Financial Officer.

The Group operates an ongoing process of identifying, evaluating and managing significant risks faced by the business. This process includes the following:

- defined organisation structure and appropriate delegation of authority;
- clear responsibility for management to maintain good financial control and the production and review of detailed, accurate and timely financial information;
- regular reports to the Board from Executive Directors, and
- Planned quarterly reviews of the Corporate Risk Register.

During the period management developed a Risk Management Policy which was reviewed by the Audit Committee during 2018. Part of this policy detailed the process for which risk is managed plus a procedure of review and reporting. A formal Corporate Risk Register has been developed in 2018 and as part of this process management reviews the key risks and mitigating factors quarterly. The Audit Committee reviewed the Corporate Risk Register at its meeting in May 2019 and will formally review it twice a year.

Internal controls

The internal control framework is based on the Company's assessment of the risks it faces. The effectiveness of the internal control system is monitored by Executive management, and material exceptions are reported to the Committee. As part of this process the Audit Committee also discussed the role, need for and possible timing for an internal audit function. Various options and timing for such a function are currently being considered.

During the period leading up to this report, the Committee instructed an independent review by a major accountancy firm of the financial control process, with a view to identifying control risks and where necessary implementing recommendations for improvements.

The identified key control processes which were part of the review is noted below:

- Cash and treasury;
- Purchase to payables;
- Billing;
- Month end close and reporting; and
- Contract management and procurement.

The report was considered by the Committee at its meeting on 24 May 2019. There were a number of control issues identified and recommendations made in the report, which the Audit Committee discussed with management. A set of actions were agreed to be implemented to deal with the key risks identified.

External auditor

Deloitte & Touche Nigeria were appointed auditors of the Group in July 2016. The Committee considers that its relationship with the auditors is working well and is satisfied with their independence, objectivity and effectiveness.

The Committee is responsible for ensuring there is a suitable policy for ensuring that non- audit work undertaken by the auditor is reviewed to ensure it will not impact their independence and objectivity. A non-audit services policy was developed by management and approved by the Audit Committee in 2018. The breakdown of fees between audit and non-audit services is provided in Note 12 to the Group's financial statements.

The Committee held private meetings with the auditors to review key items in their sphere of responsibility, as necessary. Considering the auditor's knowledge of the Group and experience, the Committee has recommended to the Board that the auditors are reappointed for the year ending 31 December 2019.

Principal risks and uncertainties

Highlighted below are the Company's principal risks which form part of the Group-wide risk register.

Principal risk factor	Risk detail	Mitigation	Respon-sibility	Trend
Financial				
Oil price volatility	Oil price volatility can lead to loss of value due to negative impact on revenue/margins and cash flow. Pricing is affected by global supply and demand and can be subject to significant fluctuations.	There is currently hedging in place as prescribed by our lenders, however it is minimal. A hedging Policy is being developed to protect downside oil price risk.	CFO	Oil price volatility is a key risk for the Company. A draft hedging policy is developed, and a strategy being developed with a view to implementing during 2019.
Availability of capital	The Oil and Gas industry is capital intensive. Significant amounts of capital are required for Development of assets, and any proposed acquisitions. Failure to debt finance projects could delay FID decisions. The Group's business will require significant capital expenditure and the future expansion and development of its business could require future debt and equity financing. The future availability of such funding is not certain.	Continued engagement and further develop banking relationships. Transparency with shareholders and continue shareholder engagement.	CFO	The Group has recently redenominated its bank debt to USD from Nigerian Naira to remove uncertainty in the exchange rate.
Joint venture partnership and funding	Major operations and projects in the industry are frequently conducted in Joint Ventures. Operational alignment is not always present. This can cause delays in timing and/or cost overruns. Non-compliance with JV process and procedures could lead to rejection of JV costs and therefore cost recovery.	Regular JV engagement from both an operated and non-operated perspective. Due diligence and checks on all C&P processes for solvency, Anti-Bribery and Corruption controls. Monitor contractual performance. Monitor JV budgets for spend and overruns, AFE's are raised and reported against.	CFO	Various improvements to the accounting and reporting systems have been made because of Joint Venture audits. Liaison between Finance has improved, and regular meetings now held.
Legislation and Compliance	Failure to comply with regulations from government institutions, commissions and/or agencies, which could potentially lead to reputational damage; withdrawal of support by shareholders, governments and/or lenders. Failure to understand the specific regulations that apply to Company's activities and the related rules, such as specifications, policies, standards or laws to follow to avoid penalties and/or litigation.	Implementing relevant Group policies such as Anti Bribery and Corruption Policy and code of conduct, and maintaining adequate records, procedures and protocols to ensure that Group is in compliance with applicable regulations. Maintaining staff awareness of Group policies and penalties for default through regular compliance trainings. All material information is released to the market on a timely basis and in accordance with all applicable regulations.	GM Legal	Steady

Principal risk factor	Risk detail	Mitigation	Respon-sibility	Trend
Operational				
Security and geo-political risk	Risk of security and political instability that could adversely affect the Company's business, financial condition and results of operations.	Adequate security for all intra and inter-field movements, proactive engagement with host communities via Informed Consultation and Participation (ICP) and regular monitoring of changes in geo-political landscape.	COO	Steady
Health, safety and environmental risks	Risk of inadequate or ineffective SHES risk controls implementation, awareness or appreciation may result in harm to people and/or the environment, assets or Company reputation.	Strict compliance with SHES policy and regulatory requirements, positive safety culture driven by Leadership; risk management, continuous improvement &training, implementation of procedures, and a comprehensive oil spill and emergency response plan.	COO	Steady
Exploration and appraisal risk	Exploration and appraisal carries sub-surface risk that could impact the ability to increase reserves and/or replace production.	Deployment of technically experienced specialist team with a proven record of success. Adequate technical analysis of acquired data to assess and prioritise opportunities. Carry out Drill Stem Test (DST) in reservoirs. Maintain clearly defined operational procedures. Carryout rig containment systems inspection and assurance. Review production test equipment set up and verify integrity of all connections. Regular BOP system operation verification.	CTO	Steady
Field operations risk	The prospect of loss resulting from inadequate or failed procedures, systems or policies. Employee errors. Systems failures.	Strict adherence to operating procedures, standards and guidelines.	COO	Steady

Principal risks and uncertainties

Continued

Principal risk factor	Risk detail	Mitigation	Respon-sibility	Trend
Strategic				
Political risk	Nigeria has at times been exposed political, economic, and social uncertainties, generally in the form of terrorism, aimed at de-stabilising the country.	LEKOIL regularly monitors and seeks to understand changes taking place in political and regulatory environments although it is often hard to forecast the timing and gravity of political events. When reviewing new positions/acquisitions we evaluate and compare the potential political risks within our portfolio.	CEO	Active engagement with the Nigerian government, elections have passed, and the President is now sworn in, however the risk of instability still exists.
Stakeholder engagement risk	The failure to manage stakeholder relationships can lead to business interference, delays in projects, impact licences and prevent possible acquisitions of future licences.	LEKOIL with its joint venture partner GEIL has signed a memorandum of understanding with its host community Ikuru with respect to the Otakikpo marginal field area. LEKOIL maintains transparent and proactive relationships with regulators and joint venture partners. LEKOIL works to the highest industry standards with regulators closely monitoring compliance with the Groups licences and obligations.	CEO	The OPL 310 licence expired in February 2019, and an extension is still outstanding. Optimum Petroleum commenced the application process to renew the licence before expiration, and therefore Company remains positive that the extension will be forthcoming. There has been no communication from the regulators to indicate that an extension will not be granted.
Bribery and corruption risk	Bribery and corruption is a risk throughout the global oil industry.	Training on Anti-Bribery and Corruption occurs annually at the senior management level. Contracting and Procurement are kept up to date.	GM Legal	Training in Anti-Bribery and Corruption held for senior management.
Fraud risk	Fraud risk is prevalent within the oil and gas industry.	Whistleblowing policy is in place. Lekoil has an established finance management system to ensure that it is able to maintain an appropriate level of liquidity and financial capacity. This includes a delegation of authority in order to reasonably protect against risk of financial fraud in the Group.	CFO	Planning is underway for an upgrade in the current Financial system. A P2P system is also being considered which will fully automate processes.

Principal risk factor	Risk detail	Mitigation	Respon-sibility	Trend
Strategic continued				
Information security risk	Network and perimeter security.	Periodic firewall log reviews and firmware updates. Existence of a diverse intrusion detection systems and password policy enforcement. Implementation of a robust contingency and disaster recovery plan to minimise disruptions to IT infrastructure during system upgrades and changes.	Head, IT & Corp Comms	Steady
New business development risk	LEKOIL has potential high-impact exploration and appraisal prospects and endeavours to keep refreshing and replenishing its exploration, appraisal and production portfolio in Africa, specifically Nigeria. These opportunities may not be successful due to a lack less well-developed relationships with key stakeholders and the fact that competition in the Nigerian market is growing. This can drive the price of opportunities up. Along with oil price risk which may limit access to capital, there may also be development, production and exploration risk.	New business development is always analysing and reviewing opportunities to ensure they are the right ones for LEKOIL. Executive committee review is in place to ensure deals are properly vetted and adequate due diligence done on new opportunities. This includes legal, finance and tax due diligence.	GM of Comm-ercial	Work continues, and new opportunities continue to be reviewed.

Remuneration report

For the year ended 31 December 2018

Scope of report

The Remuneration Report sets out the Company's remuneration policy and, particularly, its approach for Directors. It also explains how the Company applies the principles of good corporate governance in relation to remuneration.

Composition and role

The Remuneration Committee ("the Committee") comprises of Aisha Muhammed-Oyebode, John van der Welle and Gregory Eckersley(1). The members are all independent Non-Executive Directors of the Company. The Committee is responsible for determining and reviewing the terms and conditions of service (including remuneration) and termination of employment of Executive Directors, and the administration of the Company's share option and share award schemes. It is responsible for determining individual remuneration packages including, where appropriate, bonuses, incentives and share options. The Committee is also permitted to appoint independent remuneration consultants – to date H2Glenfern Remuneration Advisory – to advise the Company on remuneration for the Executive Directors.

Remuneration policy

The Committee, in forming its policy on remuneration has given due consideration to the needs of the Company, Shareholders and best practice provisions set out in the QCA Code. The ongoing policy of the Committee is that the overall remuneration package should be sufficiently competitive to attract, retain and motivate high quality employees capable of achieving the Group's objectives and to incentivise them effectively, to deliver long-term shareholder value.

It is the aim of the Committee to reward key employees on a basis which is aligned to the performance of the Company. Also, the remuneration policy is subject to the broader principle that their remuneration should be competitive with that received by professionals of comparable companies.

There are four main elements of the remuneration package:

- Base salary;
- Employee benefits;
- Performance-related annual cash bonus; and
- Performance share plan.

The Company currently has a pension scheme for the Executive Directors, in which the Company will make a monthly pension contribution at a rate of 17.5% of the Executive Director's basic salary. There is no pension scheme for Non-Executive Directors.

Base salary

The policy is to pay a fair and reasonable base salary, considering comparable salaries for similar roles in similar companies. The base salary is reviewed annually by the Committee having regard to the performance of the Company, individual performance, market data, levels of increases applicable to other employees of the Company and economic conditions.

Effective 1 January 2018, the salary of the CEO was increased from US$787,950 by 2.1% to US$804,500, and the salary of the CFO was increased from GBP£300,000 to GBP£306,300.

No changes were made for 2019, in-line with the Company's decision to not implement a company-wide salary adjustment.

Employee benefits

The Company's Directors and Officers are covered under a third-party indemnity insurance. It also provides Healthcare and Pension Plan arrangements for all its employees.

Performance-related annual cash bonus

The Group bonus performance measurement for Executive Directors and senior staff is based upon Group performance against operational, financial and other targets.

At the start of each year the Remuneration Committee specifies on target and stretch objectives across a number of categories reflecting the Company's key operational, financial and strategic objectives for the CEO, CFO and other members of the senior management team, with associated weightings. Payment of bonus is discretionary and subject to the Remuneration Committee's overall assessment of individual and Group performance.

For 2018, these objective categories included: Operational progress, including production, projects, SHES and resource maturation, (40%), Financial, including strategic funding, capital structure, cash flow, (30%), Growth, including gas business, current licences, new business, (15%), Organisational Development, (5%) and External Engagement with government and other stakeholders, (10%).

(1) Gregory Eckersley who is the Chairman, will step down from his role in the Remuneration Committee during the period he is acting as interim Chief Financial Officer.

On an Operational front, the Company fell short of its production, project and resource maturation targets set at the start of 2018. It did however perform strongly on SHES. Some Financial targets were met as improvement to the capital structure and strategic financing initiatives bore fruit, but cash flow and licence approval targets fell short. The Growth, Organisational Development and External Relations objectives also fell short of early expectations.

In the light of performance against these set 2018 objectives, and following discussions held with the CEO, the Remuneration Committee has taken the view that despite elements of the scorecard achieving target, the more critical measures in the scorecard fell short of target expectations, and as a result of this assessment, exercised its discretion to award no annual bonus with respect to 2018.

For 2019 the annual bonus will operate in a similar manner with the following categories and weightings: Base Business, comprising production, OPL 310 progress, SHES and human capital, (40%); Funding, (25%); External Relations, (20%) and Growth, comprising organic and inorganic, (15%). Actual targets include profitable growth; successful execution of the phase 2 work programme on the Otakikpo field; health safety and environment; further strengthening of the Company's financial position, effective portfolio management, further development of the Gas and Power business and effective External Engagement.

Performance Share Plan

Share awards may be granted to the Company's employees and Directors by the Board, upon recommendation by the Remuneration Committee (except in the case of the Non-Executive Directors, where the Executive Directors determine any awards).

In line with the Long-Term Incentive Plan (LTIP), the CEO and CFO were granted 2.5m and 1.5m options respectively with an exercise price of 19.73p on 3 August 2018. Further awards of 3.63m options were made to 74 of the Company's employees on 3 August 2018 with an exercise price of 19.73p.

Under the Company's Non-Executive Director Share Plan, awards of 600,000 options were made to the Company's Non-Executive Directors on 3 August 2018 with an exercise price of 19.73p.

Details of the options awarded are set out in Note 31 of the Financial Statements.

The Remuneration Committee does not intend to make any option awards in 2019 to existing Directors and employees.

The following table summarises the total gross remuneration of the Directors who served during the year ended 31 December 2018 (audited):

	Basic salary or fees			Performance		**Total**	Total
	Cash US$000	Shares US$000	General benefits US$000	related bonus US$000	Vacation pay US$000	**emoluments 2018 US$000**	emoluments 2017 US$000
Executive							
Lekan Akinyanmi	805	315	141	–	–	**1,260**	1,712
Lisa Mitchell*	410	88	96	–	–	**595**	116
Non-Executive							
Samuel Adegboyega	140	14	–	–	–	**154**	151
Aisha Muhammed-Oyebode	100	14	–	–	–	**114**	111
Greg Eckersley	100	14	–	–	–	**114**	111
John van der Welle	100	14	–	–	–	**114**	111
Hezekiah Adesola Oyinlola	100	14	–	–	–	**114**	111
Thomas Schmitt	100	2	–	–	–	**102**	25
	1,855	475	237	–	–	**2,567**	2,448

* Average exchange rate calculated for conversion from GBP to US$.

The interests of the Directors, who were in office at the end of the financial year, in options over the shares of the Parent Company at 31 December 2018 and 31 December 2017 were:

Director and Plan	Grant date	Grant price (GBP)	Vesting end date	Outstanding Options at 31 Dec 2018	Lapse date
Aisha Oyebode					
Executive Stock Incentive Plan	2/19/2013	0.49	2/19/2016	**187,500**	2/18/2023
Non-Executive Director Share Plan	12/23/2015	0.40	12/23/2018	**100,000**	12/22/2025
Non-Executive Director Share Plan	10/4/2016	0.2113	10/4/2019	**100,000**	10/3/2026
Non-Executive Director Share Plan	6/28/2017	0.1592	6/28/2020	**100,000**	6/27/2027
Non-Executive Director Share Plan	8/3/2018	0.1973	8/3/2021	**100,000**	8/2/2028
Greg Eckersley					
Executive Stock Incentive Plan	12/3/2010	0.49	12/3/2013	**750,000**	12/2/2020
Executive Stock Incentive Plan	12/3/2011	0.49	12/3/2014	**412,500**	12/2/2021
NED Share Plan	12/23/2015	0.40	12/23/2018	**100,000**	12/22/2025
NED Share Plan	10/4/2016	0.2113	10/4/2019	**100,000**	10/3/2026
NED Share Plan	6/28/2017	0.1592	6/28/2020	**100,000**	6/27/2027
NED Share Plan	8/3/2018	0.1973	8/3/2021	**100,000**	8/2/2028
Hezekiah Adesola Oyinlola					
NED Share Plan	12/23/2015	0.40	12/23/2018	**100,000**	12/22/2025
NED Share Plan	10/4/2016	0.2113	10/4/2019	**100,000**	10/3/2026
NED Share Plan	6/28/2017	0.1592	6/28/2020	**100,000**	6/27/2027
NED Share Plan	8/3/2018	0.1973	8/3/2021	**100,000**	8/2/2028
John Van Der Welle					
Executive Stock Incentive Plan	4/4/2013	0.49	4/4/2016	**187,500**	4/3/2023
NED Share Plan	12/23/2015	0.40	12/23/2018	**100,000**	12/22/2025
NED Share Plan	10/4/2016	0.2113	10/4/2019	**100,000**	10/3/2026
NED Share Plan	6/28/2017	0.1592	6/28/2020	**100,000**	6/27/2027
NED Share Plan	8/3/2018	0.1973	8/3/2021	**100,000**	8/2/2028
Lisa Mitchell					
Long Term Incentive Plan	10/1/2017	0.1716	10/1/2020	**1,500,000**	9/30/2027
Long Term Incentive Plan	8/3/2018	0.1973	8/3/2021	**1,500,000**	8/2/2028
Olalekan Akinyanmi					
Executive Stock Incentive Plan	12/3/2010	0.49	12/3/2013	**5,480,000**	12/2/2020
Long Term Incentive Plan	12/23/2015	0.40	12/23/2018	**3,143,000**	12/22/2025
Long Term Incentive Plan	10/4/2016	0.2113	10/4/2019	**2,600,000**	10/3/2022
Long Term Incentive Plan	6/28/2017	0.1592	6/28/2020	**2,500,000**	6/27/2027
Long Term Incentive Plan	8/3/2018	0.1973	8/3/2021	**2,500,000**	8/2/2028

Director and Plan	Grant date	Grant price (GBP)	Vesting end date	**Outstanding Options at 31 Dec 2018**	Lapse date
Sam Adegboyega					
Executive Stock Incentive Plan	12/3/2010	0.49	12/3/2013	**750,000**	12/2/2020
NED Share Plan	12/23/2015	0.40	12/23/2018	**100,000**	12/22/2025
NED Share Plan	10/4/2016	0.2113	10/4/2019	**100,000**	10/3/2026
NED Share Plan	6/28/2017	0.1592	6/28/2020	**100,000**	6/27/2027
NED Share Plan	8/3/2018	0.1973	8/3/2021	**100,000**	8/2/2028
Thomas Schmitt					
NED Share Plan	8/3/2018	0.1973	8/3/2021	**100,000**	8/2/2028
Grand total				**23,610,500**	

1 Total options outstanding for Aisha Oyebode is 587,500 of which 287,850 options have vested.

2 Total options outstanding for Greg Eckersley is 1,562,500 of which 1,262,500 have vested.

3 Total options outstanding for Hezekiah Adesola Oyinlola is 400,000 of which 100,000 options have vested.

4 Total options outstanding for John Van Der Welle is 587,500; 287,850 options have vested.

5 Lisa Mitchell has total outstanding options of 3,000,000 awarded under the Long-Term Incentive Plan.

6 Total options outstanding for Olalekan Akinyanmi has total options of 16,223,000 of which 8,623,000 have vested.

7 Samuel Adegboyega has total options of 1,150,000; 850,000 of which have vested.

8 Thomas Schmitt has 100,000 options which was awarded during the year 2018.

* The Group issued options with three different exercise prices $1, $3.75, and $7.50 in 2012. The share price was estimated based on recent arm's length share issues. On 17 May 2013, the issued options with exercise prices of $1.00 & $3.75 were cancelled and the issued options with exercise price of $7.50 were subdivided by a factor of ten in line with the Company's capital reorganisation which resulted in a share split of 10:1. The exercise price of the outstanding options was also subdivided by a factor of ten resulting in a reduction in exercise price from $7.50 to $0.75 and an increase in total number of option shares from 6,000,000 to 19,000,000. Effective 26 March 2014, the exercise price of the outstanding stock options was changed from US$0.75 to GB£0.49 using a conversion rate of US$1.53 to GB£1.00 and the existing stock option agreements have been amended to reflect the exercise price in GB£. Options granted in 2014 and 2015 were issued at an exercise price of GB£0.40 Options grated in 2016 were issued at an exercise price of GB£0.2113 while options granted in 2017 were issued at exercise prices of £0.1592 & £0.1716. There were no share options exercised by the Directors during the year end 2018.

Independent Auditor's report

To the Shareholders of LEKOIL Limited

Report on the Audit of the Annual Report and Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Lekoil Limited ("the Company") and its subsidiaries (together referred to as "the Group") which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and the notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of Lekoil Limited as at 31 December 2018, and the consolidated financial performance and statement of cash flows for the year then ended in accordance with the International Financial Reporting Standards (IFRS) as adopted by the European Union (EUIFRS).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the requirements of the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and other independence requirements applicable to performing audits of financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Related to Going Concern

We draw attention to Note 2(b) in the consolidated financial statements, which indicates that the Group has a negative operating cash flows of US$1.6 million for the year ended 31 December 2018 (2017: US$11.7 million) and as of that date, the Group's accumulated deficit amounts to US$83.7 million (2017: US$61.9 million).These events or conditions as set forth in Note 2(b), indicate that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Key Audit Matter

Key audit matter is the matter that, in our professional judgment, was of most significance in our audit of the consolidated financial statements of the current year. This matter was addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on this matter. In addition to the matter described in the Material Uncertainty Related to Going Concern section, we have determined the matter described below to be the key audit matter to be communicated in our report.

Key Audit Matter	How the matter was addressed in the audit
Impairment of Exploration and Evaluation Assets	
Exploration and Evaluation assets represent a significant portion of the Group's total assets. These assets have been recognised in the consolidated statement of financial position in relation to the Group's interest in OPL 310 and OPL 325. As required by the applicable accounting standards, management conducts an annual impairment assessment to determine the existence of an impairment trigger and assesses the recoverability of the carrying value of the E&E assets. As disclosed in Note 17, management has made a number of key sensitive judgments in concluding that the exploration and evaluation assets are not impaired as at 31 December 2018. Accordingly, the impairment assessment of these assets is considered a key audit matter.	We evaluated management's assessment of the carrying value of exploration and evaluation assets performed with reference to the impairment indicators in IFRS 6 Exploration for and Evaluation of Mineral Resources and the Group's accounting policy. Specifically, our work included, but was not limited to, the following procedures: • Inquire whether management has the intention to carry out exploration and evaluation activity in the relevant exploration area which included the review of management's budget and discussions with senior management as to the intentions and strategy of the Group; • Read Board minutes of meetings and consider whether there are negative indicators that certain projects might be unsuccessful; • Assess whether the Group has the ability to finance any planned future exploration and evaluation activity; • Identify the existence of any fields where the Group's right to explore is either at, or close to, expiry and review management's assessment whether there are any risks related to renewal of the licence; and • Assess the adequacy of the Group's disclosures in the financial statements. We found the management's impairment assessment of the carrying value of its exploration and evaluation assets reasonable and as such, an impairment provision is not required.

Other Information

The Directors are responsible for the other information. The other information comprises the Chairman's and CEO's Statement, Financial Review, Directors' Report and Remuneration Committee's Report, which we obtained prior to the date of this auditor's report. The other information does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

Based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, if 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.

Responsibilities of the Directors for the Consolidated Financial Statements

The Directors are responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as the Directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated 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 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 consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.
- Conclude on the appropriateness of the Directors' use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee and the Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee and the Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Olufemi Abegunde
FCA-FRC/2013/ICAN/000000004507

for: Deloitte & Touche
Chartered Accountants
Lagos, Nigeria

18 June 2019

Consolidated statement of profit or loss and other comprehensive income

For the year ended 31 December

	Notes	2018 US$'000	2017 US$'000
Revenue	8	**48,687**	30,848
Cost of sales	9	**(18,118)**	(15,913)
Gross profit		**30,569**	14,935
Operating expenses	10	**(7,942)**	(11,329)
Production bonus		**–**	(4,000)
Exploration & evaluation expenses	11	**(1,287)**	(718)
General and administrative expenses	12	**(19,133)**	(17,005)
Operating profit/(loss)		**2,207**	(18,117)
Finance income	13	**7,151**	11,349
Finance costs	13	**(7,064)**	(8,073)
Net finance income		**87**	3,276
Profit/(loss) before income tax		**2,294**	(14,841)
Income tax (expense)/benefit	14(d)	**(10,077)**	21,337
(Loss)/profit for the year		**(7,783)**	6,496
Total comprehensive (loss)/profit		**(7,783)**	6,496
Attributable to:			
Owners of the Company		**(7,924)**	5,150
Non-controlling interests		**141**	1,346
		(7,783)	6,496
Total comprehensive (loss)/profit for the year		**(7,783)**	6,496
(Loss)/profit per share:			
Basic (loss)/profit per share ($)	15(a)	**(0.02)**	0.01
Diluted (loss)/profit per share ($)	15(b)	**(0.02)**	0.01

The notes on pages 41 to 80 are an integral part of these consolidated financial statements.

Consolidated statement of financial position

As at 31 December

	Notes	2018 US$'000	2017 US$'000
Non-current assets			
Property, plant and equipment	16	**38,436**	34,593
Exploration and evaluation assets	17	**131,822**	130,773
Intangible assets	18	**4,629**	6,269
Deferred tax assets	14(c)	**18,296**	23,249
Other receivables	21	**1,708**	2,487
Other assets	22	**–**	13,000
		194,891	210,371
Current assets			
Inventories	19	**1,639**	1,090
Trade receivables	20	**8,814**	6,044
Other receivables	21	**5,783**	3,680
Other assets	22	**3,864**	5,901
Pre-paid development costs	23	**931**	42,463
Cash and bank balances	24	**10,423**	6,922
		31,454	66,100
Total assets		**226,345**	276,471
Current liabilities			
Trade and other payables	25	**13,623**	32,475
Current tax payables	14(e)	**5,124**	1,912
Deferred income	27	**–**	6,685
Loans and borrowings	28	**11,439**	17,317
		30,186	58,389
Non-current liabilities			
Provision for Asset Retirement Obligation	26	**1,808**	107
Loans and borrowings	28	**9,046**	12,192
		10,854	12,299
Total liabilities		**41,040**	70,688
Net assets		**185,305**	205,783
Capital and reserves			
Share capital	29(a)	**27**	27
Share premium	29(b)	**264,004**	264,004
Accumulated deficit		**(83,648)**	(61,855)
Other reserves		**22**	22
Share based payment reserve		**8,849**	7,675
Equity attributable to owners of the Company		**189,254**	209,873
Non-controlling interests	30	**(3,949)**	(4,090)
Total equity		**185,305**	205,783

These consolidated financial statements were approved by the Board of Directors on 18 June 2019 and signed on its behalf by:

Olalekan Akinyanmi – Chief Executive Officer

Lisa Mitchell – Chief Financial Officer

The notes on pages 41 to 80 are an integral part of these consolidated financial statements.

Consolidated statement of changes in equity

For the year ended 31 December

	Note	Share capital US$'000	Share premium US$'000	Accumulated deficit US$'000	Other reserves US$'000	Share-based payments reserve US$'000	Total US$'000	Non-controlling interests US$'000	Total equity US$'000
As at 1 January 2017		27	264,004	(67,005)	22	6,478	203,526	(5,436)	198,090
Total comprehensive income for the year									
Profit for the year		–	–	5,150	–	–	5,150	1,346	6,496
Transactions with owners of the Company									
Share-based payment – personnel expenses	31	–	–	–	–	1,197	1,197	–	1,197
Balance at 1 January 2018		27	264,004	(61,855)	22	7,675	209,873	(4,090)	205,783
Adjustment on adoption of IFRS 9, net of tax	5.1	–	–	(13,869)	–	–	(13,869)	–	(13,869)
Total comprehensive income for the year									
(Loss)/profit for the year		–	–	(7,924)	–	–	(7,924)	141	(7,783)
Transactions with owners of the Company									
Share-based payment – personnel expenses	31	–	–	–	–	1,174	1,174	–	1,174
Balance at 31 December 2018		**27**	**264,004**	**(83,648)**	**22**	**8,849**	**189,254**	**(3,949)**	**185,305**

The notes on pages 41 to 80 are an integral part of these consolidated financial statements.

Consolidated statement of cash flows

For the year ended 31 December

	Notes	2018 US$'000	2017 US$'000
Operating activities			
(Loss)/profit for the year		**(7,783)**	6,496
Adjustments to (loss)/profit for the year to net cash generated from by operating activities:			
– Equity-settled share-based payment		**1,174**	1,196
– IFRS 9 adjustments		**(13,869)**	–
– Property, plant and equipment restatement		**–**	4,423
– Pre-paid development costs restatement		**10,615**	5,477
– Pre-paid development costs carried interest		**(299)**	(6,921)
– Intangible cost adjustment		**–**	291
– Derecognition of E&E asset		**837**	268
– Finance cost		**4,717**	6,850
– Revaluation adjustments for loans and borrowings	28	**142**	(2,649)
– Deferred tax		**4,953**	(23,249)
– Depreciation and amortisation	16&18	**9,875**	8,366
Cash flow generated from operations before working capital adjustments		**10,362**	548
Changes in:			
Inventory		**(549)**	(418)
Deferred income		**(6,685)**	–
Trade and other payables		**(18,852)**	835
Other assets		**(4,094)**	(4,857)
Trade and other receivables		**15,037**	(9,732)
Income taxes		**5,124**	1,912
Cash generated from/(used in) operations		**343**	(11,712)
Income taxes paid	14(e)	**(1,912)**	–
Net cash generated used in operating activities		**(1,569)**	(11,712)
Investing activities			
Acquisition of property, plant and equipment	16	**(10,395)**	(6,080)
Pre-paid development costs	23	**(2,839)**	(7,894)
Recoveries from pre-paid development costs	23	**34,055**	33,700
Acquisition of exploration and evaluation assets	17	**(1,886)**	(2,309)
Net cash generated from investing activities		**18,935**	17,417
Financing activities			
Proceeds from issue of loan note	28	**7,000**	18,137
Repayment of loan	28	**(17,558)**	(13,568)
Interest and transaction costs related to loan	28	**(3,307)**	(6,635)
Net cash used in financing activities**		**(13,865)**	(2,066)
Increase/(decrease) in cash and bank balances		**3,501**	3,639
Cash and bank balances at 1 January	24	**6,922**	3,283
Cash and bank balances at 31 December	24	**10,423**	6,922

**Changes in liabilities arising from financing activities have been disclosed in Note 28(e).

The notes on pages 41 to 80 are an integral part of these consolidated financial statements.

Notes to the financial statements

1. Reporting entity

LEKOIL Limited (the "Company" or "LEKOIL") is a company domiciled in the Cayman Islands with registration number WK- 248859. The address of the Company's registered office is Intertrust Group, 190 Elgin Avenue, Georgetown, Grand Cayman, Cayman Islands. These consolidated financial statements comprise the Company and its subsidiaries (together referred to as the "Group" and individually as "Group entities"). The Group's principal activity is exploration and production of oil and gas.

2. Basis of preparation

(a) Statement of compliance
These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union (EU). The consolidated financial statements were authorised for issue by the Board of Directors on 18 June 2019.

A number of new standards, amendments to standards and interpretations effective for annual periods beginning after 1 January 2019, have not been applied in preparing these consolidated financial statements.

(b) Going concern basis of accounting
These consolidated financial statements have been prepared on the going concern basis of accounting which assumes the Group will realise its assets and discharge its liabilities in the normal course of business. There is however a material uncertainty that can cast a significant doubt on the Group's ability to continue as a going concern which is discussed below.

In the reporting year, the Group had a negative operating cash flow of US$1.6 million (2017: US$11.7 million) and as of the year end 2018, the Group's accumulated deficit amounts to US$83.7 million (2017: US$61.9 million).

During the year there was a concerted effort to reduce debt from vendor financing while we agreed in principle to refinance a portion of and redenominate outstanding Naira debt facilities totalling 3 billion Naira into United States Dollars (USD). This was finalised during March 2019 and provided a moratorium on the last two 2018 quarter principal repayments. The tenors were extended from June 2019 to June 2021, giving the Company additional headroom from a reduction in interest rate and with the principal moratorium.

The Board and Management regularly monitors the Company's cash flow projections. Considering delays with progressing key assets, we have decided to act in order to reduce our overheads. Management has created a project team to review costs with the aim to decrease general and administrative costs by 25%. This includes a 25% reduction in Board remuneration.

The ability of the Group to continue to operate as a going concern is dependent on several factors considered by the Directors as disclosed below:

- The ability of the Group to maintain steady state production and lifting on the Otakikpo marginal field;
- The operational success of the Otakikpo Phase 2 field development and planned growth in production to around gross 15,000 to 20,000 bopd (net to LEKOIL 6,000 to 8,000 bopd);
- Commodity pricing given there is no oil price hedging currently in place other than that required by lenders for debt service;
- Availability of financing for development of OPL 310, which is not currently factored into the cash forecasts;
- Ability to defer capital activities to future periods;
- Financing available from debt markets, equity markets and/or alternative sources of capital; and
- Approvals:
  - Joint operation and DPR approvals for Phase 2 Otakikpo field development;
  - Ministerial approvals for the Afren acquisition and, hence the OPL 310 22.86% working interest; and
  - OPL 310 license extension.

The Directors have determined that over the course of the next 12 months and taking into consideration the factors mentioned above, there is a reasonable expectation that there will be sufficient sources of funds for the Group. In making their assessment, the Directors have considered the Group's current cash position and the generation of funds from forecast production over the period, against the need to service the Group's debt portfolio, and tested the scenarios at different commodity prices. The Board may consider raising further funds from either the equity or debt markets or industry sources during the year to provide further headroom and ensure the Company has the necessary resources to fund future growth.

Accordingly, the Directors continue to adopt the going concern basis of preparation of the financial statements for the year ended 31 December 2018.

(c) Basis of measurement
These consolidated financial statements have been prepared on the historical cost basis except for financial instruments and share based payments which are measured at fair values.

2. Basis of preparation continued

(d) Functional and presentation currency
These consolidated financial statements are presented in US Dollars which is the Company's functional currency. All amounts have been rounded to the nearest thousands of dollars (1,000), unless otherwise indicated.

(e) Use of estimates and judgments
In the application of the Group's accounting policies, which are described in Note 3, management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

(i) Judgments
Information about judgments made in applying accounting policies that have the most significant effects on the amounts recognised in the consolidated financial statements is included in the following notes:

- Note 2(b) – Going concern basis of accounting.
- Note 17(c) – The Company's judgment on the conclusive outcome of the license extension request.

On March 28, 2019, the Federal High Court, sitting in Ikoyi, Lagos State, Nigeria ruled that LEKOIL's purported acquisition of shares in Afren Investment Oil and Gas (Nigeria) Limited ("AIOGNL") and by that, the 22.86% interest in OPL 310, is inchoate and invalid given the failure to obtain Ministerial Consent in respect of the transfer of the said shares. The Judge also ruled that pursuant to Articles 13.1.4 and 13.1.5 of the Joint Operating Agreement (JOA) between Optimum and AIOGNL, Optimum's consent is required to effect a transfer of AIOGNL's interest in OPL 310, or any part thereof, to LEKOIL.

The implication of the Judge's pronouncement is that pending receipt of Ministerial consent to the acquisition, AIOGNL retains its 22.86% participating interest in OPL 310. On the basis that the Group still requires Ministerial consent in order to control the entity and associated mineral rights, the entity is not consolidated into the Group accounts of LEKOIL.

LEKOIL 310 Limited had initially filed an appeal against the decision of the Federal High Court but decided to withdraw legal action following receipt of a letter dated 8 May 2019 from the Ministry of Petroleum Resources relating to an application for an extension (re-award) to the OPL 310 licence (the "Letter"). The Letter states that the Government has noted that the OPL 310 licence expired on 10 February 2019 and ownership of OPL 310 has accordingly reverted to the Government in line with Petroleum Act. The Letter further sets out that the re-award will not be considered by the Honourable Minister of Petroleum Resources ("HMPR") until such point as the suit filed by LEKOIL against the HMPR is withdrawn by LEKOIL and other parties to the action. Failure by LEKOIL and others to withdraw the suit within thirty (30) days of the Letter forecloses any consideration of re-award to Optimum Petroleum Development Limited, LEKOIL and their affiliates or subsidiaries.

LEKOIL 310 Limited decided to withdraw legal action on 16 May 2019 but will continue engagements with the regulator and the Operator of the Asset to conclude agreements and resolve all outstanding issues.

Although the ten-year tenure granted to OPL 310 licence in 2009 has lapsed, Optimum in its capacity as Operator has begun the extension process and whereas there is no guarantee that the license will be renewed, LEKOIL is hopeful for a favourable response from the regulators in this regard.

In the event that the extension is not granted, all the costs associated with the asset would be impaired to the profit and loss.

- Note 17(d) – Exploration and evaluation accounting judgment. The Group policy is to capitalise all expenditure incurred during the exploration and appraisal phase until the determination process has been completed or until such point as commercial reserves have been established. Exploration and evaluation assets are expected to be recouped in future through successful development and exploitation of the area of interest.

- Note 22 – On the basis that the Group requires Ministerial Consent to take control of the OPL 310 oil mineral rights interest held by Afren Oil and Gas, the Group has not consolidated Afren Oil and Gas and has accounted for payments made in respect of the Afren Oil and Gas acquisition as other assets. However, with the implementation of IFRS 9, these balances have been impaired.

2. Basis of preparation continued

(ii) Assumptions and estimation uncertainties

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities in the year ending 31 December 2019 is included in the following notes:

- Note 2(b) – Going concern. Key assumptions made, and judgment exercised by the Directors in preparing the Group's cash forecast.
- Note 14(c) – Recognised deferred tax assets. Availability of future taxable profit against which carry forward losses can be utilised.
- Notes 16, 17 and 18 – Impairment test of property plant and equipment, exploration and evaluation assets and intangible assets: Key assumptions underlying the recoverable amounts.
- Note 26 – Provisions for asset retirement obligation. Key assumptions underlying the asset retirement obligation as at year end.
- Note 35 – Financial commitments and contingencies. Key assumptions about the likelihood and magnitude of future outflow of economic resources.

3. Significant accounting policies

The Group has consistently applied the following accounting policies to all periods presented in these consolidated financial statements.

(a) Basis of consolidation and Business combinations

(i) Basis of consolidation

Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-Group transactions, are eliminated. Unrealised gains arising from transactions with equity-accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity if:

i) it has power over the investee i.e. it has existing rights that give it the ability to direct the relevant activities (the activities that significantly affect the investee's returns);

ii) it has exposure, or rights, to variable returns from its involvement with the investee; and/or

iii) it has the ability to use its power over the investee to affect the amount of the investor's returns.

The Group is deemed not to control an entity where regulatory approval is a substantive requirement for the passing of control. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date on which control ceases.

Non-controlling interests

Non-controlling interests ("NCI") are measured at their proportionate share of the acquiree's identifiable net assets at the acquisition date.

(ii) Business combinations

The Group accounts for business combinations using the acquisition method when control is transferred to the Group. The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired. Any goodwill that arises is tested annually for impairment. Any gain on a bargain purchase is recognised in profit or loss immediately. Transaction costs are expensed as incurred, except if related to the issue of debt or equity securities.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss.

Any contingent consideration is measured at fair value at the date of acquisition. If an obligation to pay contingent consideration that meets the definition of a financial instrument is classified as equity, then it is not remeasured, and settlement is accounted for within equity. Otherwise, other contingent consideration is remeasured at fair value at each reporting date and subsequent changes in the value of the contingent consideration are recognised in profit or loss.

3. Significant accounting policies continued

If share-based payments awards (replacement awards) are required to be exchanged for awards held by the acquiree's employees (acquiree's awards), then all or a portion of the amount of the acquirer's replacement awards is included in measuring the consideration transferred in the business combination. This determination is based on the market-based measure of the replacement awards compared with the market-based measure of the acquiree's award and the extent to which the replacement awards relates to pre-combination service.

(b) Foreign currency

The US dollar is the presentation currency of the Group.

Transactions in foreign currencies are recorded at the rates of exchange ruling at the transaction dates. Monetary assets and liabilities are translated into functional currency at the exchange rate ruling at the balance sheet date, with a corresponding charge or credit to the profit or loss account.

Non-monetary assets and liabilities that are measured at fair value in a foreign currency are translated into the functional currency at the exchange rate when the fair value was determined. Non-monetary items that are measured based on historical cost in a foreign currency are translated at the exchange rate at the date of the transaction.

However, foreign currency differences arising from the translation of the following items are recognised in Other Comprehensive Income ("OCI"):

- a financial liability designated as a hedge of the net investment in a foreign operation to the extent that the hedge is effective; and
- qualifying cash flow hedges to the extent that the hedges are effective.

(c) Revenue

(i) Sale of crude

Revenue represents sales value of Group's share of liftings in the year. Revenue is recognised 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 usually coincides with title passing to the customer and the customer taking physical possession.

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.

(ii) Costs of sales

Production expenditure, crude treatment and processing expenditure, crude evacuation and lifting expenditure, depreciation, depletion and amortisation of oil and gas assets and crude handling expenditure are reported as costs of sales.

(iii) Interest income

Interest income, including income arising from finance leases and other financial instruments, is recognised using the effective interest method.

(iv) Overlift and underlift

Lifting or offtake arrangements for oil and gas production in certain of the Group's jointly owned operations are such that each participant may not receive and sell its precise share of the overall production in each period. The resulting imbalance between cumulative entitlement and cumulative production less stock is underlift or overlift. Underlift and overlift are valued at market value and included within receivables and payables respectively. Movements during an accounting period are adjusted through cost of sales such that gross profit is recognised on an entitlement's basis.

In respect of redeterminations, any adjustments to the Group's net entitlement of future production are accounted for prospectively in the period in which the make-up oil is produced. Where the make-up period extends beyond the expected life of a field, an accrual is recognised for the expected shortfall.

(d) Share capital

(i) Ordinary shares

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares are recognised as a deduction from equity, net of any tax effects.

(e) Financial instruments

Financial assets and financial liabilities are recognised in the Group's statement of financial position when the Group becomes a party to the contractual provisions of the instrument.

3. Significant accounting policies continued

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss ("FVTPL")) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognised immediately in profit or loss.

Financial assets

Financial assets are classified in the following categories:

(i) financial assets measured at amortised cost;

(ii) financial assets measured at fair value through other comprehensive income ("FVTOCI"); and

(iii) financial assets measured at FVTPL.

At initial recognition, a financial asset is measured at its fair value; at initial recognition, trade receivables that do not have a significant financing component are measured at their transaction price. After initial recognition, financial assets whose contractual terms give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding are measured at amortised cost. For financial assets measured at amortised cost, interest income determined using the effective interest rate, foreign exchange differences and any impairment losses are recognised in the profit or loss account.

Conversely, financial assets that are debt instruments are measured at FVTOCI. In these cases: (i) interest income determined using the effective interest rate, foreign exchange differences and any impairment losses are recognised in the profit or loss account; (ii) changes in fair value of the instruments are recognised in equity, within other comprehensive income. The accumulated changes in fair value, recognised in the equity reserve related to other comprehensive income, is reclassified to the profit and loss account when the financial asset is derecognised.

Financial assets that do not meet the criteria for being measured at amortised cost or FVTOCI are measured at FVTPL. Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognised in profit or loss account.

Impairment of financial assets

The Group assesses the expected credit losses associated with financial assets classified as measured at amortised cost at each balance sheet date. Expected credit losses ("ECLs") are measured based on the maximum contractual period over which the Group is exposed to credit risk. The measurement of ECLs is a function of the probability of default, loss event default and exposure at default. The ECL is estimated as the difference between the asset's carrying amount and the present value of the future cash flows the Group expects to receive discounted at the financial asset's original effective interest rate. The carrying amount of the asset is adjusted, with the amount of the impairment gain or loss recognised in the income statement.

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months ("a 12-month ECL"). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default ("a lifetime ECL"). For trade receivables, the Group applies a simplified approach in calculating ECLs.

For all other financial instruments, the Group recognises lifetime ECL when there has been a significant increase in credit risk since initial recognition. However, if the credit risk on the financial instrument has not increased significantly since initial recognition, the Group measures the loss allowance for that financial instrument at an amount equal to 12-month ECL.

The Group recognises an impairment gain or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account, except for investments in debts instruments that are measured at FVTOCI, for which the loss allowance is recognised in other comprehensive income and accumulated in the investment revaluation reserve, and does not reduce the carrying amount of the financial asset in the statement of financial position.

Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

3. Significant accounting policies continued

Financial liabilities and equity

Equity instruments
An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all its liabilities. Equity instruments issued by the Group are recognised at the proceeds received, net of direct issue costs.

Financial liabilities
All financial liabilities are measured subsequently at amortised cost using the effective interest method or at FVTPL.

Financial liabilities at FVTPL
Financial liabilities are classified as at FVTPL when the financial liability is:

- contingent consideration of an acquirer in a business combination;
- it is designated as at FVTPL.

A financial liability is classified as held for trading if:

- it has been acquired principally for repurchasing it in the near term; or
- it is a derivative, except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument.

A financial liability or contingent consideration of an acquirer in 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; or
- it forms part of a contract containing one or more embedded derivatives, and IFRS 9 permits the entire combined contract to be designated as at FVTPL.

Financial liabilities at FVTPL are measured at fair value, with any gains or losses arising on changes in fair value recognised in profit or loss to the extent that they are not part of a designated hedging relationship.

However, for financial liabilities that are designated as at FVTPL, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is recognised in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. The remaining amount of change in the fair value of liability is recognised in profit or loss. Changes in fair value attributable to a financial liability's credit risk that are recognised in other comprehensive income are not subsequently reclassified to profit or loss; instead, they are transferred to retained earnings upon derecognition of the financial liability.

Financial liabilities measured subsequently at amortised cost
Financial liabilities that are not:

- contingent consideration of an acquirer in a business combination;
- designated as at FVTPL, are measured subsequently at amortised cost using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or (where appropriate) a shorter period, to the amortised cost of a financial liability.

Derecognition of financial liabilities
The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

3. Significant accounting policies continued

(f) Property, plant and equipment

(i) Recognition and measurement

Items of property, plant and equipment are measured at cost, which includes capitalised borrowing costs, less accumulated depreciation and any accumulated impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the asset. When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment. An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

(ii) Subsequent expenditure

Subsequent expenditure is capitalised only if it is probable that the future economic benefits associated with the expenditure will flow to the Group.

(iii) Depreciation

Items of property, plant and equipment are depreciated from the date they are available for use or, in respect of self-constructed assets, from the date that the asset is completed and ready for use.

Depreciation is calculated to write off the cost of items of property, plant and equipment less their estimated residual values using the straight-line basis over their estimated useful lives. Depreciation is generally recognised in profit or loss, unless the amount is included in the carrying amount of another asset. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Group will obtain ownership by the end of the lease term.

The estimated useful lives of property, plant and equipment for the current and comparative years are as follows:

• Motor vehicles	– 5 years
• Furniture and fittings	– 5 years
• Leasehold improvement	– 2 years
• Computers, communication and household equipment	– 4 years
• Plant machinery, storage tank and others	– 4 years
• Oil and gas assets	– Unit of production method based on proved developed reserves

Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

(g) Exploration and Evaluation (E&E) expenditures

(i) License acquisition costs: License acquisition costs are capitalised as intangible E&E assets. These costs are reviewed on a continual basis by management to confirm that activity is planned and that the asset is not impaired. If no future activity is planned, the remaining balance of the license and property acquisition costs are written off. Capitalised license acquisition costs are measured at cost less accumulated amortisation and impairment losses. Costs incurred prior to having obtained the legal rights to explore an area are expensed directly as they are incurred.

(ii) Exploration expenditure: All exploration and appraisal costs are initially capitalised in well, field or specific exploration cost centres as appropriate pending future exploration work programmes and pending determination. All expenditure incurred during the various exploration and appraisal phase is capitalised until the determination process has been completed or until such point as commercial reserves have been established. Payments to acquire technical services and studies, seismic acquisition, exploratory drilling and testing, abandonment costs, directly attributable administrative expenses are all capitalised as exploration and evaluation assets. Capitalised exploration expenditure is measured at cost less impairment losses.

Treatment of E & E assets at conclusion of exploratory and appraisal activities

Exploration and evaluation assets are carried forward until the existence, or otherwise, of commercial reserves has been determined. If commercial reserves have been discovered, the related E&E assets are assessed for impairment on a cost pool basis as set out below and any impairment loss is recognised in the income statement. The carrying value, after any impairment loss, of the relevant E&E assets is then reclassified as development and production assets within property, plant and equipment or intangible assets. If, however, commercial reserves have not been found, the capitalised costs are charged to expense after the conclusion of the exploratory and appraisal activities. Exploration and evaluation costs are carried as assets and are not depreciated prior to the conclusion of exploratory and appraisal activities.

3. Significant accounting policies continued

An E&E asset is assessed for impairment when facts and circumstances suggest that the carrying amount may exceed its recoverable amount. Such circumstances include the point at which a determination is made as to whether or not commercial reserves exist. Where the E&E asset concerned falls within the scope of an established full cost pool, the E&E asset is tested for impairment together with any other E&E assets and all development and production assets associated with that cost pool, as a single cash generating unit. The aggregate carrying value is compared against the expected recoverable amount of the pool, generally by reference to the present value of the future net cash flows expected to be derived from production of commercial reserves. Where the E&E asset to be tested falls outside the scope of any established cost pool, there will generally be no commercial reserves and the E&E asset concerned will be written off in full.

(h) Development expenditure
Once the technical feasibility and commercial viability of extracting oil and gas resources are demonstrable, expenditure related to the development of oil and gas resources which are not tangible in nature are classified as intangible development expenditure. Capitalised development expenditure is measured at cost less accumulated amortisation and impairment losses. Amortisation of development assets attributable to the participating interest is recognised in profit or loss using the unit-of-production method based on proved developed reserves.

(i) Leases
(i) Determining whether an arrangement contains a lease
At inception of an arrangement, the Group determines whether the arrangement is or contains a lease.

At inception or on reassessment of an arrangement that contains a lease, the Group separates payments and other consideration required by the arrangement into those for the lease and those for other elements based on their relative fair values. If the Group concludes for a finance lease that it is impracticable to separate the payments reliably, then an asset and a liability are recognised at an amount equal to the fair value of the underlying asset; subsequently, the liability is reduced as payments are made and an imputed finance cost on the liability is recognised using the Group's incremental borrowing rate.

(ii) Leased assets
Assets held by the Group under leases that transfer to the Group substantially all the risks and rewards of ownership are classified as finance leases. The leased assets are measured initially at an amount equal to the lower of their fair value and the present value of the minimum lease payments. After initial recognition, the assets are accounted for in accordance with the accounting policy applicable to that asset.

Assets held under other leases are classified as operating leases and are not recognised in the Group's statement of financial position.

(iii) Lease payments
Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term to produce a constant periodic rate of interest on the remaining balance of the liability.

(j) Inventories
Inventories comprise of crude oil stock at period end and consumable materials.

Inventories are valued at the lower of cost and net realisable value. Cost of consumable materials is determined using the weighted average method and includes expenditures incurred in acquiring the stocks, and other costs incurred in bringing them to their existing location and condition.

Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses. Inventory values are adjusted for obsolete, slow-moving or defective items where appropriate.

(k) Intangible assets
An intangible asset is an identifiable non-monetary asset without physical substance. The Group expends resources or incurs liabilities on the acquisition, development, maintenance or enhancement of intangible resources such as scientific or technical knowledge, design and implementation of new processes on systems, licenses, signature bonus, intellectual property, market knowledge and trademarks.

3. Significant accounting policies continued

The Group recognises an intangible asset if, and only if;

i. economic benefits that are attributable to the asset will flow to the entity; and

ii. the costs of the asset can be measured reliably.

The Group assesses the probability of future economic benefits using reasonable and supportable assumptions that represent management's best estimate of the set of economic conditions that will exist over the useful life of the asset. Intangible assets are measured initially at cost.

Amortisation is calculated to write off the cost of the intangible asset less its estimated residual value using the straight-line basis over the estimated useful lives or using the units of production basis from the date that they are available for use. The estimated useful life and methods of amortisation of intangible assets for current and comparative years are as follows:

Type of asset	Basis
Mineral rights acquisition costs (signature bonus)	Unit of production method based on estimated proved reserves
Accounting software	Amortised over a useful life of three years
Geological and geophysical software	Amortised over a useful life of five years

(l) Employee benefits

(i) Short-term employee benefits

Short-term employee benefits are expensed as the related service is provided. A liability is recognised for the amount expected to be paid if the Group has a present legal or constructive obligation to pay this amount because of past service provided by the employee and the obligation can be estimated reliably.

(ii) Share-based payment transactions

The grant-date fair value of equity-settled share-based payment awards granted to employees and others providing similar services is recognised as an employee expense and other general and administrative expense respectively, with a corresponding increase in equity, over the vesting period that the employees become unconditionally entitled to the awards. The amount recognised as an expense is adjusted to reflect the number of awards for which the related service and non-market performance conditions are expected to be met, such that the amount ultimately recognised is based on the number of awards that meet the related service and non-market performance conditions at the vesting date. For share-based-payment awards with non-vesting conditions, the grant-date fair value of the share-based payment is measured to reflect such conditions and there is no true-up for differences between expected and actual outcomes.

(iii) Post-employment benefits

Defined contribution plan

A defined contribution plan is a post-employment benefit plan (pension fund) under which the Group pays fixed contributions into a separate entity. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to the employee service in the current and prior periods.

In line with the provisions of the Pension Reform Act 2014, a subsidiary domiciled in Nigeria has instituted a defined contribution pension scheme for its permanent staff. Staff contributions to the scheme are funded through payroll deductions while the subsidiary's contribution is recognised in profit or loss as employee benefit expense in the periods during which services are rendered by employees. Employees contribute 8% each of their gross salary to the fund monthly. The subsidiary's contribution is 10% of each employee's gross salary.

(m) Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as finance cost.

The Group's Asset Retirement Obligation ("ARO") primarily represents the estimated present value of the amount the Group will incur to plug, abandon and remediate its areas of operation at the end of their productive lives, in accordance with applicable legislations. The Group determines the ARO on its oil and gas properties by calculating the present value of estimated cash flows related to the liability when the related facilities are installed or acquired.

3. Significant accounting policies continued

Contingent liabilities

A contingent liability is a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group, or a present obligation that arises from past events but is not recognised because it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation; or the amount of the obligation cannot be measured with sufficient reliability.

Contingent liabilities are only disclosed and not recognised as liabilities in the statement of financial position. If the likelihood of an outflow of resources is remote, the possible obligation is neither a provision nor a contingent liability and no disclosure is made.

(n) Finance income and finance costs

Finance income comprises, where applicable, interest income on funds, dividend income, gains on the disposal of financial assets, fair value gains on financial assets at fair value through profit or loss, gains on the remeasurement to fair value of any pre-existing interest in an acquiree in a business combination, gains on hedging instruments that are recognised in profit or loss and reclassifications of net gains previously recognised in other comprehensive income. Interest income is recognised as it accrues in profit or loss, using the effective interest method. Dividend income is recognised in profit or loss on the date that the Group's right to receive payment is established.

Finance costs comprise, where applicable, interest expense on borrowings, unwinding of the discount on provisions and deferred consideration, dividends on preference shares classified as liabilities, fair value losses on financial assets at fair value through profit or loss and contingent consideration, impairment losses recognised on financial assets (other than trade receivables), losses on hedging instruments that are recognised in profit or loss and reclassifications of net losses previously recognised in other comprehensive income.

Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognised in profit or loss using the effective interest method.

Foreign currency gains and losses are reported on a net basis as either finance income or finance cost depending on whether foreign currency movements are in a net gain or net loss position.

(o) Earnings per share

The Group presents basic and diluted earnings per share ("EPS") data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the year. Diluted earnings per share is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares which comprise share options granted to employees. Potential ordinary shares are treated as dilutive when, and only when, their conversion to ordinary shares would decrease earnings per share or increase loss per share from continuing operations.

(p) Segment reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incurs expenses, including revenues and expenses that relate to transactions with any of the Group's other components. The Group defines geographical areas as operating segments in accordance with IFRS 8 – Operating Segments.

(q) Income tax

Income tax expense comprises current and deferred tax. It is recognised in profit or loss except to the extent that it relates to a business combination, or items recognised directly in equity or other comprehensive income.

(i) Current tax

Current tax comprises the expected tax payable or receivable on the taxable income or loss for the year and any adjustment to tax payable or receivable in respect of previous years. The amount of current tax payable or receivable is the best estimate of the tax amount expected to be paid or received that reflects uncertainty related to income taxes, if any. It is measured using tax rates enacted or substantively enacted at the reporting date. Current tax also includes any tax arising from dividends.

(ii) Deferred tax

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amount used for taxation purposes.

3. Significant accounting policies continued

Deferred tax is not recognised for:

- temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;
- temporary differences related to investments in subsidiaries, associates and joint arrangements to the extent that the Group is able to control the timing of the reversal of the temporal differences and it is probable that they will not reverse in the foreseeable future; and
- taxable temporary differences arising on the initial recognition of goodwill.

Deferred tax assets are recognised for unused tax losses, unused tax credits and deductible temporary differences to the extent that it is probable that future taxable profit will be available against which they can be used. Future taxable profits are determined based on the reversal of relevant taxable temporary differences. If the amount of taxable temporary difference is insufficient to recognise a deferred tax asset in full, then future taxable profits, adjusted for reversals of existing temporary differences, are considered, based on the business plans for individual subsidiaries in the Group. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised; such reductions are reversed when the probability of future taxable profits improves.

Unrecognised deferred tax assets are reassessed at each reporting date and recognised to the extent that it has become probable that future profits will be available against which they can be used.

Deferred tax is measured at the tax rates that are expected to be applied to temporary difference when they reverse, using tax rates enacted or substantively enacted at the reporting date.

The measurement of deferred tax reflects the tax consequences that would follow from the way the Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset only if certain criteria are met.

4. Measurement of fair values

Several of the Group's accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities.

The Group has an established control framework with respect to the measurement of fair values. This includes a valuation expert that has responsibility for overseeing all significant fair value measurements, including Level 3 fair values, and reports directly to the General Manager of Commercial.

When measuring the fair value of an asset or a liability, the Group uses observable market data as far as possible. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

If the inputs used to measure the fair value of an asset or a liability might be categorised in different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The Group recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred. Further information about the assumptions made in measuring fair values is included in the following notes:

Note 31 – share-based payment arrangements.

Note 36 – financial risk management and financial instruments.

5. Adoption of new and revised International Financial Reporting Standards

5.1 Accounting standards and interpretations issued that became effective during the year 2018
In the current year, the Group considered several amendments to IFRSs issued by the International Accounting Standards Board ("IASB") that are mandatory and effective for an accounting period that begins on or after 1 January 2018.

IFRS 9 – Financial Instruments
IFRS 9 'Financial Instruments' was issued in July 2014 and replaced IAS 39 'Financial Instruments: Recognition and Measurement'.

The Group adopted IFRS 9 and the related consequential amendments to other IFRSs in the financial reporting commencing 1 January 2018. The Group has applied the new standard in accordance with the transition provisions of IFRS 9. Comparatives have not been restated and adjustments on transition have been reported in opening accumulated deficit at 1 January 2018.

The Group's revised accounting policies in relation to financial instruments are provided in Note 3e.

The overall impact on transition to IFRS 9 was a reduction of US$13.87 million in net assets, net of tax. This adjustment mainly relates to the recognition of loss allowance on for financial assets in the scope of IFRS 9's impairment requirements. As comparatives have not been restated, the closing balance at 31 December 2017 for certain line items in the statement of financial position differ from the opening balance at 1 January 2018 (as summarised below).

	31 December 2017 US$'000	1 January 2018 US$'000	Adjustment on adoption of IFRS 9 US$'000
Non-current assets			
Other assets (a)	13,000	–	13,000
Other receivables (b)	2,487	1,618	869
Deposit for investments	15,487	1,618	13,869
Reserves			
Accumulated deficit	(61,855)	(75,724)	13,869
(a) Other assets			
Deposit for investments	13,000	–	13,000
(b) Other receivables			
Director's loan	1,691	1,618	73
Due from Afren Investment Oil & Gas (Nigeria) Limited	796	–	796
	2,487	1,618	869

IFRS 15 – Revenue from contracts with customers
The implementation of IFRS 15 has not impacted the presentation of the Group's sales revenue.

The Group's accounting policy under IFRS 15 is that revenue is recognised when the Group satisfies a performance obligation by transferring oil to a customer. The title to oil typically transfers to a customer at the same time as the customer takes physical possession of the oil. Typically, at this point in time, the performance obligations of the Group are fully satisfied.

The accounting for revenue under IFRS 15 does not, therefore, represent a substantive change from the Group's previous accounting policy for recognising revenue from sales to customer.

5. Adoption of new and revised International Financial Reporting Standards continued

5.2 Accounting standards and interpretations issued but not yet effective

The following revisions to accounting standards and pronouncements that are applicable to the Group were issued but are not yet effective. Where IFRSs and International Financial Reporting Interpretations Committee ("IFRIC") interpretations listed below permits early adoption, the Group has elected not to apply them in the preparation of these consolidated financial statements. The Group plans to adopt the standard when it becomes effective.

The full impact of these IFRS's and IFRIC interpretations is currently being assessed by the Group, but none of these pronouncements are expected to result in any material adjustments to the consolidated financial statements.

Pronouncement	Nature of change	Effective date
IFRIC Interpretation 23 – Uncertainty over Income Tax Treatments	The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12. The Interpretation does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments.	Effective for annual periods beginning on or after 1 January 2019
IFRS 16 – Leases	This standard replaces the current guidance in IAS 17 and is a far-reaching change in accounting by lessees in particular. Under IAS 17, lessees were required to make a distinction between a finance lease (on balance sheet) and an operating lease (off balance sheet). IFRS 16 now requires lessees to recognise a lease liability reflecting future lease payments and a 'right-of-use asset' for virtually all lease contracts. The IASB has included an optional exemption for certain short-term leases and leases of low-value assets; however, this exemption can only be applied by lessees. The standard will have an impact on property leases and oil and gas production and support equipment leases. Property leases are currently included as administrative expenses. On transition to IFRS 16, the expense will decrease, offset by an increase in finance costs and depreciation of right-of-use assets. Oil and gas production and support equipment leases are currently treated as either operating costs or capitalised as property plant and equipment or intangible assets. On transition to IFRS 16, those leases classified as operating leases under IAS 17, the associated operating costs will decrease, offset by an increase in finance costs and depreciation of other fixed assets and depletion and amortisation of oil and gas assets.	Effective for annual periods beginning on or after 1 January 2019
Amendments to IFRS 9: Prepayment Features with Negative Compensation	The amendments to IFRS 9 clarify that for the purpose of assessing whether a prepayment feature meets the SPPI condition, the party exercising the option may pay or receive reasonable compensation for the prepayment irrespective of the reason for prepayment. In other words, prepayment features with negative compensation do not automatically fail SPPI.	Effective for annual periods beginning on or after 1 January 2019

Pronouncement	Nature of change	Effective date
Amendments to IAS 28: Long-term Interests in Associates and Joint Ventures	The amendment clarifies that IFRS 9, including its impairment requirements, applies to long-term interests. Furthermore, in applying IFRS 9 to Long-term interests, an entity does not take into account adjustments to their carrying amount required by IAS 28 (I.e., adjustments to the carrying amount of long-term interests arising from the allocation of impairment in accordance with IAS 28).	Effective for annual periods beginning on or after 1 January 2019
Annual Improvements to IFRS Standards 2015-2017	The Annual Improvements include amendments to four standards. *IAS 12 – Income taxes:* The amendments clarify that an entity should recognise the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the entity originally recognised the transactions that generated the distributed profits. *IAS 23 – Borrowing costs:* The amendments clarify that if any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, that borrowing becomes part of the funds that an entity borrows generally when calculating the capitalisation rate on general borrowings. *IFRS 3 Business combinations:* The amendments to IFRS 3 clarify that when an entity obtains control of a business that is a joint operation, the entity applies the requirements for a business combination achieved in stages, including remeasuring its previously held interest in the joint operation at fair value. *IFRS 11 – Joint arrangements* The amendments to IFRS 11 clarify that when a party that participates in, but does not have joint control of, a joint operation that is a business obtains joint control of such a joint operation, the entity does not remeasure previously held interest in the joint operation.	Effective for annual periods beginning on or after 1 January 2019
Amendments to IAS 19 Employee Benefits: Plan Amendment, Curtailment or Settlement	The amendments clarify that the past service cost (or of the gain or loss on settlement) is calculated by measuring the defined benefit liability (asset) using updated assumptions and comparing benefits offered and plan assets before and after the plan amendment (or curtailment or settlement) but ignoring the effect of the asset ceiling (that may arise when the defined benefit plan is in a surplus position).	Effective for annual periods beginning on or after 1 January 2019

6. Operating segments

The Group has a single class of business which is exploration, development and production of petroleum oil and natural gas. The geographical areas are defined by the Group as operating segments in accordance with IFRS 8 – Operating Segments. As at the year end, the Group had operational activities mainly in one geographical segment, Nigeria.

Geographical information
In presenting information based on geographical segments, segment assets are based on the geographical location of the assets.

Non-current assets

	2018 US$'000	2017 US$'000
Nigeria	193,176	208,123
Namibia	–	440
Cayman	1,708	1,787
Others	7	21
	194,891	210,371

Non-current assets presented consists of property, plant & equipment, E&E assets, intangible assets, deferred tax assets other receivables and other assets.

Profit and loss

	2018				
	Nigeria US$'000	Namibia US$'000	Cayman Island US$'000	Others US$'000	Total US$'000
Revenue	48,687	–	–	–	48,687
Profit from operating activities	12,859	(652)	(7,633)	(2,367)	2,207
Net finance income/(costs)	88	(51)	70	(20)	87
Income tax expense	(10,077)	–	–	–	(10,077)
Total (loss)/profit for the year	2,870	(703)	(7,563)	(2,387)	(7,783)

	2017				
	Nigeria US$'000	Namibia US$'000	Cayman Island US$'000	Others US$'000	Total US$'000
Revenue	30,848	–	–	–	30,848
Loss from operating activities	(10,388)	(381)	(6,290)	(1,058)	(18,117)
Net finance income/(costs)	3,165	52	(1,568)	1,627	3,276
Income tax benefit	21,337	–	–	–	21,337
Total comprehensive profit/(loss) for the year	14,114	(329)	(7,858)	569	6,496

7. Capital management

The Group's policy is to maintain a strong capital base to maintain investor, creditor and market confidence and to sustain future development of the business.

The Group monitors capital using a ratio of adjusted net debt to adjusted equity. For this purpose, adjusted net debt is defined as total liabilities less cash and bank balances.

The Group's net debt to equity ratio at the end of the reporting year was as follows:

	2018 US$'000	2017 US$'000
Total liabilities	**41,040**	70,688
Less: cash and bank balances	**(10,423)**	(6,922)
Net debt	**30,617**	63,766
Equity	**185,305**	205,783
Net debt to equity ratio	**0.17**	0.31

There were no changes in the Group's approach to capital management during the year. The Group is not subject to externally imposed capital requirements.

8. Revenue

	2018 US$'000	2017 US$'000
Crude proceeds (a)	**48,687**	30,848

(a) Crude proceeds of US$48.7 million represents the Group's share of crude oil sales from Otakikpo operation during the year, which is recognised as revenue ("equity crude"), (31 December 2017: US$30.9 million). The Group's entitlement crude was 1,346,525 barrels (31 December 2017: 1,223,248 barrels) out of which the Group lifted 1,305,888 barrels (31 December 2017: 1,188,732 barrels). The balance of 42,390 barrels (31 December 2017: 34,515 barrels) representing the Group's share of overriding royalty crude was lifted on its behalf by its joint operating partner GEIL based on an agreed lifting arrangement. The entitlement crude comprises equity crude of 739,106 (31 December 2017: 583,720 barrels) barrels and cost recovery crude of 507,176 barrels (31 December 2017: 639,528 barrels), which were applied as recoveries for pre-paid development costs; and GEIL cash call crude* of 100,243 barrels (31 December 2017: Nil).

	2018		2017	
	Barrels	US$'000	Barrels	US$'000
Equity crude	**739,106**	**48,687**	583,720	30,848
Cost recovery crude	**507,176**	**34,055**	639,528	33,700
GEIL cash call crude*	**100,243**	**6,587**	–	–
	1,346,525	**89,329**	1,223,248	64,548

* During the year, the allocation of crude for cost recovery was suspended for the February and June liftings because of the cost recovery audit, and the proceeds were allocated to the joint operating partners in accordance to their equity stake. The Group's share of the proceeds was applied to cost recovery while GEIL's share were utilised to fund its cash call contribution in the joint operation.

9. Costs of sales

	2018 US$'000	2017 US$'000
Depreciation and amortisation	**7,893**	6,191
Crude handling, evacuation and production operation costs	**5,756**	6,071
Royalty expenses	**4,919**	3,935
Closing stock adjustments	**(549)**	(418)
Other expenses	**99**	134
	18,118	15,913

10. Operating expenses

	2018 US$'000	2017 US$'000
Field personnel costs	**3,631**	2,502
Field facility management costs	**378**	1,009
Community and security expenses	**2,081**	2,151
Gas flaring	**187**	22
Other operating costs	**1,665**	5,645
	7,942	11,329

11. Exploration and evaluation expenses

Exploration and evaluation expenses comprise US$0.6 million (2017: US$0.3 million) impairment expenses on Block 2514B following the decision of the Directors to relinquish the block and exit Namibia.

	2018 US$'000	2017 US$'000
LEKOIL Exploration and Production (Pty) Limited E&E expenditure (Namibia)	**554**	268
Goodwill impairment loss on Ashbert Oil and Gas Limited additional acquisition expenditure (OPL 325)	**–**	450
Deferred consideration payment on Ashbert Oil & Gas Limited	**450**	–
Others	**283**	–
	1,287	718

12. General and administrative expenses

	2018 US$'000	2017 US$'000
Personnel expenses (a)	**8,033**	7,808
Depreciation and amortisation (Notes 16 and 18)	**1,982**	2,175
Rent expenses (b)	**1,514**	1,227
NDDC levy	**(2,692)**	642
Travel expenses	**1,460**	1,783
IT and telecommunication expenses	**1,217**	782
Audit	**349**	294
Non audit services	**52**	53
Other expenses*	**7,218**	2,241
	19,133	17,005

* The Company looked at a number of potential investment opportunities during the year and conducted extensive due diligence on a select few, which incurred c. US$1.8 million in additional financial advisory, consultancy and legal costs. The Company also incurred a charge of approximately US$500 thousand in relation to ECL write offs.

(a) Personnel expenses

	2018 US$'000	2017 US$'000
Wages and salaries	**6,488**	6,529
Defined contribution pension expense	**371**	82
Equity settled share-based payment	**1,174**	1,197
	8,033	7,808

(b) Operating leases

The Group leases office and residential facilities under cancellable operating leases. Lease payments are made upfront covering the lease period with no additional obligations.

(c) Key management personnel and Director compensation

In addition to their salaries, the Group also provides non-cash benefits to key management personnel, in the form of share-based payments.

(i) Key management personnel and Director compensation comprised the following:

	2018 US$'000	2017 US$'000
Short-term benefits	**2,092**	2,282
Share-based payment	**475**	390
	2,567	2,672

(ii) Key management personnel and Director compensation comprised the following:

	2018 US$'000	2017 US$'000
Salaries	**1,452**	1,217
Fees	**640**	565
Bonus	**–**	500
	2,092	2,282

Details of Directors' remuneration (including the fair value of share-based payments) earned by each Director of the Company during the period have been disclosed in the remuneration report on pages 30 to 33.

13. Finance income and costs

	2018 US$'000	2017 US$'000
Finance income		
Joint operating partner carry interest income (a)	**6,984**	5,294
Other interest income (b)	**167**	418
Net foreign exchange gain (c)	**–**	5,637
	7,151	11,349
Finance costs		
Finance expenses (d)	**4,569**	8,073
Net foreign exchange loss (c)	**2,495**	–
	7,064	8,073

(a) Joint operating partner carry interest income
Joint operating partner carry interest income represents interest earned on pre-paid development costs. The interest earned on the pre-paid development costs have been classified to finance income for the year due to the majority of pre-paid development costs being recovered/adjusted.

(b) Other interest income
Other interest income represents interest earned on short term deposits and call accounts transactions with the Group's bankers.

(c) Net foreign exchange loss/gain
Net foreign exchange loss/gain represents exchange differences resulting from the conversion of US$ amounts to Nigerian Naira amounts, to meet obligations settled in Nigerian Naira. The net foreign loss during the year was largely due to foreign exchange adjustments arising from the cost recovery audit. (Refer to Note 23(b)).

(d) Finance expenses
Finance costs consist largely of interest costs on third party loans during the year. Also included as finance expenses are transaction costs for the refinancing of the FBNC dollar facility.

14. Taxes

(a) Petroleum profit tax
The Group with its principal assets and operations in Nigeria is subject to the Petroleum Profit Tax Act of Nigeria ("PPTA"). The Group's Petroleum Profit Tax charge for the period is summarised below:

	2018 US$'000	2017 US$'000
Balance at 1 January	**218**	–
Charge for the year	**2,493**	181
Tertiary education tax	**396**	37
Payment for the year	**(218)**	–
Balance at year end	**2,889**	218

14. Taxes continued

(b) Company income tax

Interest on recovered carried cost and technical fees earned on Otakikpo operations of the Group is subject to Company Income Tax Act of Nigeria ("CITA"). The Group's Company Income Tax charge for the year is summarised below:

	2018 US$'000	2017 US$'000
Balance at 1 January	1,694	–
Charge for the year	2,095	1,588
Tertiary education tax	140	106
Payment for the year	(1,694)	–
Balance at year end	2,235	1,694

(c) Deferred tax assets

The Group has an estimated deferred tax asset of US$95.7 million (2017: US$72.7 million), out of which the Group has recognised deferred tax assets of US$18.3 million (2017: US$23.2 million); derived from the activities of its subsidiary LEKOIL Oil and Gas Investments Limited. The Directors have assessed the future profitability of its operation in Otakikpo marginal field and have a reasonable expectation that the Group will make enough taxable profit from LEKOIL Oil and Gas Investments Limited in the near future to utilise the deferred tax assets. The balance of US$77.5 million (2017: US$49.45 million) of unrecognised deferred tax assets relates to unutilised capital allowances and tax losses from other subsidiaries in which the Directors are not certain when there will be available taxable profit from the subsidiaries to utilise the deferred tax assets.

	2018 US$'000	2017 US$'000
Recognised deferred tax assets	18,296	23,249
Unrecognised deferred tax assets	77,452	49,451
	95,748	72,700

(d) Total income tax (expense)/benefit recognised in the year

	2018 US$'000	2017 US$'000
Petroleum profit tax	(2,493)	(181)
Company income tax	(2,095)	(1,588)
Tertiary education tax	(536)	(143)
Recognised deferred tax	(4,953)	23,249
	(10,077)	21,337

(e) Current tax liabilities

	2018 US$'000	2017 US$'000
Balance at 1 January	1,912	–
Charge for the year		
– Petroleum profit tax	2,493	181
– Company income tax	2,095	1,588
– Tertiary education tax	536	143
Payment during the year	(1,912)	–
Balance at 31 December	5,124	1,912

15. Profit/(loss) per share

(a) The calculation of basic (loss)/profit per share has been based on the following (loss)/profit attributable to ordinary shareholders and weighted-average number of ordinary shares outstanding.

(i) (Loss)/profit attributable to ordinary shareholders (basic)

In US Dollars	2018 US$'000	2017 US$'000
(Loss)/profit for the year attributable to owners of the Company	**(7,924)**	5,150

(ii) Weighted-average number of ordinary shares (basic)

	2018	2017
Issued ordinary shares	**536,529,983**	536,529,983
Weighted-average number of ordinary shares at 31 December	**536,529,983**	536,529,983

(b) The calculation of diluted (loss)/profit per share has been based on the following (loss)/profit attributable to ordinary shareholders and weighted-average number of ordinary shares outstanding after adjustment for the effects of all dilutive potential ordinary shares. Basic and diluted loss per share are equal as all options are anti- dilutive.

(i) (Loss)/profit attributable to ordinary shareholders (diluted)

	2018 US$'000	2017 US$'000
(Loss)/profit for the year attributable to owners of the Company	**(7,924)**	5,150

(ii) Weighted-average number of ordinary shares (diluted)

	2018	2017
Issued ordinary shares	**536,529,983**	536,529,983
Weighted-average number of ordinary shares at 31 December	**536,529,983**	536,529,983

(c) (Loss)/profit per share is calculated by dividing the (loss)/profit for the year attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the year.

	2018 US$'000	2017 US$'000
(Loss)/profit for the year attributable to ordinary shareholders (US$'000)	**(7,924)**	5,150
Weighted average number of ordinary shares ('000)	**536,530**	536,530
(Loss)/profit per ordinary share (US$)	**(0.02)**	0.01

16. Property, plant and equipment

(a) The movement on this account was as follows:

	Oil and Gas Assets US$'000	Motor Vehicles US$'000	Furniture & Fittings US$'000	Computers, Communication & Household Equipment US$'000	Plant, Machinery, Storage Tank & Others US$'000	Leasehold Improvements US$'000	Total US$'000
Balance at 1 January 2017	38,440	296	409	748	126	1,223	41,242
Additions	6,034	–	8	16	22	–	6,080
Adjustments	(4,415)	–	–	–	–	(24)	(4,439)
Balance at 31 December 2017	40,059	296	417	764	148	1,199	42,883
Balance at 1 January 2018	40,059	296	417	764	148	1,199	42,883
Additions	10,195	–	16	49	135	–	10,395*
Changes to decommissioning estimate (Note 26)	1,683	–	–	–	–	–	1,683
Balance at 31 December 2018	**51,937**	**296**	**433**	**813**	**283**	**1,199**	**54,961**
Accumulated depreciation and impairment losses:							
Balance at 1 January 2017	136	161	170	332	10	808	1,617
Charge for the year	6,207	42	79	187	38	136	6,689
Adjustments	(16)	–	–	–	–	–	(16)
Balance at 31 December 2017	6,327	203	249	519	48	944	8,290
Balance at 1 January 2018	6,327	203	249	519	48	944	8,290
Charge for the year	7,893	42	81	156	51	12	8,235
Balance at 31 December 2018	**14,220**	**245**	**330**	**675**	**99**	**956**	**16,525**
Carrying amounts:							
At 31 December 2018	**37,717**	**51**	**103**	**138**	**184**	**243**	**38,436**
At 31 December 2017	33, 732	93	168	245	100	255	34,593

* The additions of US$10.4 million during the year consist largely of capital expenditure on production facilities in the Otakikpo marginal field of US$8.6 million and; reallocation from pre-paid development costs, of sole capital expenditure of US$1.8 million incurred by the Group on the Otakikpo field following the completion of the cost recovery audit.

17. Exploration and Evaluation (E&E) assets

E&E assets represents the Group's oil mineral rights acquisition and exploration costs.

(a) The movement on the E&E assets account was as follows:

	2018 US$'000	2017 US$'000
Balance at 1 January	**130,773**	128,732
Additions during the year (b)	**1,886**	2,309
Derecognition of E&E expenditure of LEKOIL Exploration and Production (Pty) Limited (e)	**(554)**	(268)
Other impairments	**(283)**	–
Balance at 31 December	**131,822**	130,773

(b) The additions during the year consists largely of US$1.7 million E&E expenditure in OPL 310 and US$0.2 million E&E expenditure in OPL 325. Total expenditure incurred on OPL 310 from inception of the farm-in agreement to 31 December 2018 amounts to US$115.5 million.

17. Exploration and Evaluation (E&E) assets continued

(c) LEKOIL and the Operator of the OPL 310 block, Optimum, had previously requested that the Federal Ministry of Petroleum Resources grant an extension of the OPL 310 license beyond February 2019 to recover its position over the past three years, lost due to regulatory delays beyond the Company's control. The Company advises that it has received correspondence by letter (the "Letter") from the Ministry of Petroleum Resources relating to an application for an extension (re-award) to the OPL 310 licence. The Letter states that the Government has noted that the OPL 310 licence expired on 10 February 2019 and ownership of OPL 310 has accordingly reverted to the Government in line with Petroleum Act. The Letter further sets out that the re-award will not be considered by the Honourable Minister of Petroleum Resources ("HMPR") until such point as the suit filed by LEKOIL against the HMPR is withdrawn by LEKOIL and other parties to the action. Failure by LEKOIL and others to withdraw the suit within thirty (30) days of the Letter, which was dated 8 May 2019, forecloses any consideration of re-award to Optimum, LEKOIL and their affiliates or subsidiaries. The Company therefore withdrew legal action on 16 May 2019. The Company will also continue engagements with the regulator and the Operator of OPL 310, to conclude agreements and resolve all outstanding issues.

The Company also notes that the Letter, does not state that the application for a licence extension was denied and thus it is still pending because the application was submitted prior to the expiry date. The Company is hopeful that having complied with the direction of the HMPR, such extension (re-award) will be granted.

If the extension is not granted, all the costs associated with the asset would be impaired to the profit and loss.

(d) OPL 310 was assessed for impairment by the Directors and it was concluded no impairment charge was necessary. This was based upon management's assessment of the asset's value in use, its expectation on the extension of the licence and the planned expenditure for 2019 to enable appraisal drilling.

(e) The Directors have decided to relinquish the interest in Namibian block 2514B held by LEKOIL Exploration and Production (Pty) Limited and to wind down the company. Consequently E&E asset held in LEKOIL Exploration and Production (Pty) Limited has been written-off.

18. Intangible assets

The movement on the intangible assets account was as follows:

	Mineral rights acquisition costs** US$'000	Geological and geophysical software US$'000	Accounting software US$'000	Total US$'000
Costs				
Balance at 1 January 2017	7,000	2,078	104	9,182
Additions during the year	–	–	–	–
Adjustment	–	(291)*	–	(291)
Balance at 31 December 2017	7,000	1,787	104	8,891
Balance at 1 January 2018	7,000	1,787	104	8,891
Additions during the year	–	–	–	–
Balance at 31 December 2018	**7,000**	**1,787**	**104**	**8,891**
Accumulated amortisation				
Balance at 1 January 2017	26	879	40	945
Charge for the year	1,292	358	27	1,677
Balance at 31 December 2017	1,318	1,237	67	2,622
Balance at 1 January 2018	1,318	1,237	67	2,622
Charge for the year	1,227	409	4	1,640
Balance at 31 December 2018	**2,545**	**1,646**	**71**	**4,262**
Carrying amounts				
At 31 December 2018	**4,455**	**141**	**33**	**4,629**
At 31 December 2017	5,682	550	37	6,269

* Adjustment to software maintenance cost capitalised in prior year.
** Mineral rights acquisition costs represent the signature bonus for the Otakikpo marginal field amounting to US$7.0 million.

19. Inventories

Inventories consist of the Group's share of crude stock of US$1.6 million as at 31 December 2018 (2017: US$1.1 million).

20. Trade receivables

Trade receivables comprise:

	2018 US$'000	2017 US$'000
Sales proceeds receivable (a)	**8,814**	6,044

(a) Trade receivables consist of the Otakikpo crude proceeds balance due from the crude offtaker from the last lifting for the year.

21. Other receivables

Other receivables comprise:

	2018 US$'000	2017 US$'000
Non-current		
Director's loan (b)	**1,708**	1,691
Due from Afren Investment Oil & Gas (Nigeria) Limited (c)	**–**	796
	1,708	2,487
Current		
Cash call receivable from joint operating partner – GEIL (a)	**5,684**	3,606
Employee loans and advances	**4**	10
Other receivables	**95**	64
	5,783	3,680

(a) The cash call due receivable from Otakikpo joint operating partner (GEIL), represents GEIL's share of cash calls paid by the Group on their behalf.

(b) The Director's loan represents the balance due on an unsecured loan of US$1,500,000 granted to a Director on 9 December 2014. The loan had a three-year term and bore interest at a rate of four per cent per annum. In September 2017, the loan was extended for another 3 years to 9 December 2020 under the same terms and conditions (Note 32 (a) (i)).

Following the adoption of IFRS 9, the Group recognised US$0.07 million ECL provisions at the beginning of the year (see Note 5.1).

(c) The amount due from Afren Investment Oil & Gas (Nigeria) Limited (Afren) represents Afren's share of Optimum's overheads paid by the Group on Afren's behalf. The Group has recognised an ECL provision for the entire receivable from Afren Investment Oil & Gas (Nigeria) Limited.

22. Other assets

Other assets comprise:

	2018 US$'000	2017 US$'000
Non-current		
Deposit for investments in Afren Investments Oil & Gas (Nigeria) Limited (a)	–	13,000
	–	13,000
Current		
Non-Government Royalty	–	1,779
Restricted cash (b)	3,166	3,294
Prepaid rent	309	361
Prepaid insurance	321	53
Others	68	414
	3,864	5,901

(a) On 30 November 2015, LEKOIL 310 Limited, a wholly owned subsidiary of LEKOIL Limited executed a sale and purchase agreement with the Administrators of Afren Nigeria Holdings Limited and Afren Plc relating to the entire issued share capital of Afren Investment Oil & Gas (Nigeria) Limited and certain intra-company debts.

In accordance with the agreement, LEKOIL 310 Limited shall acquire the entire share capital of Afren Investment Oil & Gas (Nigeria) Limited and will be assigned the intra-company debts of Afren Nigeria Holdings Limited and Afren Plc, with Afren Investment Oil & Gas (Nigeria) Limited for considerations of US$1, US$6.4 million and US$6.6 million respectively.

Consequently, on 18 November 2015, LEKOIL 310 Limited made the Initial Payments of US$5.9 million and US$6.1 million for Afren Investment Oil & Gas (Nigeria) Limited intra-company debts with Afren Plc and Afren Nigeria Holdings Limited respectively. The Group further paid the balance US$1 million in December 2017. The cumulative payment of US$13 million was reported as a deposit for shares pending the receipt of the consent of the Minister of Petroleum.

Following the adoption of IFRS 9, the Group has recognised an ECL provision of the entire amount of US$13 million (see Note 5.1).

(b) Restricted cash represents cash funding of the debt service reserve accounts for two quarters of interest for the FBN Capital Notes and one quarter of interest and principal payment of the Shell Western facility.

23. Pre-paid development costs

Pre-paid development costs comprise:

	2018 US$'000	2017 US$'000
Balance at 1 January	42,463	66,825
Adjustment (b)	(10,615)	(5,477)
Addition during the year	2,839	7,894
Recoveries during the year	(34,055)	(33,700)
Interest for the year	299	6,921
Balance at 31 December	931	42,463

(a) Pre-paid development costs represent GEIL's share of costs (60% of joint operations' costs) in the Otakikpo marginal field. Under the terms of the farm-in agreement, LEKOIL Oil and Gas Investment Limited undertakes to fund GEIL's participating interest share of all costs relating to the joint operation on the Otakikpo marginal field, until the completion of the Initial Work Programme. The Group will recover costs at a rate of LIBOR plus a margin of 10% through crude oil lifting as the field commences production. However, for expenditure above US$70 million, the recovery rate increases to LIBOR plus a margin of 13%. The interest on carried costs has been included as part of the pre-paid development costs.

23. Pre-paid development costs continued

The Group commenced recovery of pre-paid development costs in April 2017, following the commencement of crude lifting. The sum of US$34.1 million was recovered during the year ended 31 December 2018 (2017: US$33.7 million). The outstanding pre-paid development costs balance as at year end was fully recovered in February 2019.

(b) Following the completion of the cost recovery audit and resultant agreement reached by the joint operating partners, a reduction of US$10.6 million was made to the balance of pre-paid development costs. This adjustment reflected several factors relating to agreed adjustments to the working capital, foreign exchange and a reclassification of capital expenditure.

24. Cash and bank balances

	2018 US$'000	2017 US$'000
Bank balances	**10,423**	6,922

25. Trade and other payables

	2018 US$'000	2017 US$'000
Accounts payable	**4,137**	16,833
Accrued expenses	**5,110**	7,409
Other statutory deductions	**3,601**	6,114
Non-Government Royalties Payable	**649**	2,044
Other payables	**126**	75
	13,623	32,475

26. Provisions for asset retirement obligation

The movement in the provision for asset retirement obligation account was as follows:

	2018 US$'000	2017 US$'000
Balance at 1 January	**107**	91
Unwinding of discount	**18**	16
Effect of changes to decommissioning estimates	**1,683**	–
Balance at 31 December	**1,808**	107

The Group has recognised a provision for Asset Retirement Obligation ("ARO") which represents the estimated present value of the amount the Group will incur to plug, abandon and remediate the Otakikpo operation at the end of its productive life, in accordance with applicable legislation. The provision has been estimated at a US inflation rate of 2% and discounted to present value at 10%. The provision recognised represents 40% of the net present value of the estimated total future cost as the Company's partner, GEIL is obligated to bear 60% of the cost.

A corresponding amount equivalent to the provision is recognised as part of the cost of the related property, plant and equipment. The amount recognised is the estimated cost of decommissioning, discounted to its net present value, and is reassessed each year in accordance with local conditions and requirements, reflecting management's best estimates.

The unwinding of the discount on the decommissioning is included as a finance cost. Changes in the estimated timing of decommissioning, or decommissioning cost estimates are dealt with prospectively by recording an adjustment to the provision and a corresponding adjustment to property, plant and equipment.

During the year, there was revision in the Group's decommissioning costs estimate to include decommissioning costs for additional capital expenditure incurred since the last estimate was determined. Management has also revised the timing of the decommissioning event to 2025. Management believe the estimates form a reasonable basis for the expected future costs of decommissioning expected to be incurred in approximately 2025.

27. Deferred income

The movement in deferred income was as follows:

	2018 US$'000	2017 US$'000
Balance at 1 January	**6,685**	7,426
Additions during the year	**299**	4,553
Charge to finance income (a)	**(6,984)**	(5,294)
Balance at 31 December	**–**	6,685

(a) The Group reclassifies the interest portion of the pre-paid development costs to finance income proportionately over the period which the cost recovery occurs by reference to cost recoveries in each period as a percentage of the total capital and operating costs incurred to date in the development of the field. However, in 2018 and following the near completion of cost recovery, the balance of deferred income was fully reclassified to finance income.

28. Loans and borrowings

(a) FBN Capital Limited Notes Issuance Agreements – two-tranche facility

The Company entered into notes issuance agreements dated 16 June, 2016 with FBN Capital Limited ("FBNC") providing for a loan of US$10 million with a 3-year tenor ("FBNC Dollar Facility") and a loan of 2 billion Naira (approximately US$10 million at the time of issuance) with a three-year tenor ("FBNC Naira Facility", together the "FBNC Facilities"). The FBNC facilities are fully drawn and are secured by the LEKOIL Oil and Gas Limited ("LOGL") assets as well as a LEKOIL Limited guarantee.

(i) FBNC Dollar Facility

Interest is charged on the FBNC Dollar Facility at 3-month LIBOR plus 11.25% per annum and interest payments are due at the end of each quarterly period. The loan is repayable in 10 quarterly instalments starting from March 2017 in accordance with a repayment schedule.

The loan has a final maturity date of 30 June 2019 and is secured by the Company's interest in the Otakikpo field and facilities as well as a Parent Company guarantee.

In August 2018, the Company entered into a transaction to revise the interest rate of the facility to 3-month LIBOR plus 10% per annum. As part of the transaction, the tenor of the facility was extended to June 30, 2021 with principal repayment moratoriums for two quarters and equal quarterly principal repayments thereafter.

(ii) FBNC Naira Facility

The full 2 billion Naira was drawn on the facility in June 2016 to fund the Otakikpo field development. Interest is charged on the FBNC Naira Facility at the greater of 3-month NIBOR plus 6% or 20% per annum, and interest payments are due at the end of each quarterly period. The loan is repayable in 10 quarterly instalments starting from March 2017 in accordance with a repayment schedule.

The loan had a final maturity date of 30 June 2019 and is secured by the Company's interest in the Otakikpo field and facilities as well as a Parent Company guarantee.

In September 2016, the Company upsized the FBNC Naira Facility by 2.5 billion Naira. The fully drawn amount was used to fund Otakikpo expenditures.

In September 2017, FBNC moved the loan to its affiliate, FBN Merchant Bank (FBNM) for administrative purposes.

In June 2018, the Company entered into a transaction to redenominate the currency of the facility from Naira into United States Dollars. The FBNC Naira Facility will be denominated in US$ ("FBNM Dollar Facility"). Subsequently, the facility was also upsized to refinance the outstanding balance on the Sterling facility referred to below. The balance on the 4.5 billion Naira FBNM Naira Facility and the refinanced outstanding balance on Sterling bank facility will be re-denominated into a new US$8.45 million facility.

The FBNM Dollar Facility has an interest rate of 3-month LIBOR plus 10% per annum and will mature in June 30, 2021 with a principal repayment moratorium for two quarters and equal quarterly principal repayments thereafter.

The documentation for the transactions was completed in March 2019.

28. Loans and borrowings continued

(b) US$5 million FBN Merchant Bank Working Capital Facility
The Company put in place a one-year US$5 million revolving credit facility (the "FBNM Working Facility") in December 2017. The primary purpose of the revolver was to manage the working capital funding requirements of the Company. The facility has a 60-day repayment cycle for any drawn down amount and interest is charged at 90-day LIBOR plus 11.25% per annum. As at 31 December 2018 the Company has repaid all funds drawn from this facility.

(c) 5 billion Naira Sterling Bank Corporate Loan Facility
On 23 June 2016, the Company signed an agreement with Sterling Bank Plc ("Sterling") to secure a three-year Corporate Loan Facility for 5 billion Naira (the "Sterling Bank Facility). The purpose of the facility was to fund the Otakikpo field development.

In September 2016, the Company drew down 1 billion Naira on the facility. Interest charged on the Sterling Bank Facility was initially at the greater of 3-month NIBOR plus 10% per annum and interest payments are due at the end of each quarterly period from June 2017. The interest rate was subsequently amended to 26% per annum in February 2017. The loan is repayable in ten quarterly instalments starting from June 2017 in accordance with a repayment schedule.

The loan had a final maturity date of 30 September 2019 and is secured by the Company's interest in the Otakikpo field and facilities as well as a Parent Company guarantee.

In June 2018, the Company entered into a transaction to refinance the outstanding balance on the facility into the FBNM Dollar Facility.

The documentation for the transactions was completed in March 2019.

(d) US$15 million Shell Western Supply and Trading Limited Advance Payment Facility
On 30 March 2017, the Company signed an agreement with Shell Western Supply and Trading Limited ("Shell"), a member of the Royal Dutch Shell Group of companies (LSE: RDSA, RDSB) to secure a three-year advance payment facility for US$15 million (the "Shell Facility").

The full US$15 million was drawn on the facility in March 2017 to fund the residual pre-production development costs in the Otakikpo field.

Interest is charged on the Shell Facility at 3-month LIBOR plus 10% per annum and interest payments are due at the end of each quarterly period. The loan is repayable in 10 quarterly instalments starting from December 2017 in accordance with a repayment schedule.

The loan has a final maturity date of 31 March 2020 and is secured by the Company's interest in the Otakikpo field and facilities as well as a Parent Company guarantee.

The following is the outstanding balance of interest-bearing loans and borrowings as at the year-end:

	Interest rate p.a.	**2018 US$'000**	2017 US$'000
US$10 million FBNC Dollar Facility	10% + LIBOR (a(i))	**4,831**	5,828
4.5 billion Naira FBNM Naira Facility (a(ii))	6% + NIBOR	**–**	7,212
FBNC Facility (for Redenomination) (a(ii))	10% + LIBOR	**8,191**	–
US$15 million Shell Facility	10% + LIBOR	**7,463**	13,275
5 billion Naira Sterling Bank Facility (c)	26%	**–**	2,191
US$5 million FBNM Working Facility	11.25% + LIBOR	**–**	1,003
Total		**20,485**	29,509
Analysis of borrowing			
Current		**11,439**	17,317
Non-current		**9,046**	12,192
		20,485	29,509

28. Loans and borrowings continued

The movement in the loan account was as follows:

	2018 US$'000	2017 US$'000
Balance at 1 January	**29,509**	27,390
Draw-down during the year	**7,000**	18,137
Effective interest during the year	**4,699**	6,834
Principal repayment during the year	**(17,558)**	(13,568)
Interest and fees paid during the year	**(3,307)**	(6,635)
Revaluation adjustments	**142**	(2,649)
Balance at 31 December	**20,485**	29,509

(e) Changes in liabilities arising from financing activities:

		Cash changes			Non-cash changes			
	1 January 2018 US$'000	Draw-down during the year US$'000	Principal repayment US$'000	Interest and fees paid US$'000	Effective interest US$'000	Revaluation adjustments US$'000	Other changes (ii) US$'000	**31 December 2018 US$'000**
Bank loans (Note 28(d))	29,509	7,000	(17,558)	(3,307)	4,699	142	–	**20,485**
Total liabilities from financing activities	29,509	7,000	(17,558)	(3,307)	4,699	142	–	**20,485**

29. Capital and reserves

(a) Share capital

	Ordinary shares	
	2018 US$'000	2017 US$'000
Authorised	**50**	50
Issued, called up and fully paid	**27**	27
Total issued and called up share capital	**27**	27

	Number of shares 2018	Number of shares 2017
Authorised – par value US$0.00005 (2017: US$0.00005)	**1,000,000,000**	1,000,000,000
Issued, called up and fully paid – par value US$0.00005 (2017: US$.00005)	**536,529,983**	536,529,983

(b) Share premium

Share premium represents the excess of amount received over the nominal value of the total issued share capital as at the reporting date.

	2018 US$'000	2017 US$'000
Share premium	**264,004**	264,004

30. Non-controlling interest

	% of ownership	2018 US$'000	2017 US$'000
LEKOIL Nigeria Limited	10	**3,603**	3,885
LEKOIL Exploration and Production (Pty) Limited	20	**346**	205
		3,949	4,090

This shows the net assets of the non-controlling interest analysed to the relevant companies.

31. Share-based payment arrangements

At 31 December 2018, the Group had the following share-based payment arrangements:

Long-term incentive plan scheme (equity-settled)

The long-term incentive plan ("LTIP") was approved on 19 November 2014 and amended on 21 December 2015. Further to previous awards under the LTIP, the Board on 3rd August 2018 approved the grant of 2,500,000 stock options to the CEO, Olalekan Akinyanmi and 1,500,000 stock options to the CFO, Lisa Mitchell. The Board also approved the grant of 3,630,000 stock options to employees of the Group.

Out of the 7,630,000 options, 5,625,000 were granted to the senior management team that the Group has designated as persons discharging managerial responsibilities ("PDMRs") and these options have the following performance conditions.

(i) No shares may be acquired, and the option will lapse in full if annual compound Total Shareholder Return ("TSR") is less than 10%.

(ii) 30% of the shares subject to the option may be acquired by exercise if annual compound TSR is 10%.

(iii) 100% of the shares subject to the option may be acquired by exercise if annual compound TSR is 20% or more.

(iv) The number of shares subject to the option which may be acquired on exercise will be determined on a straight-line basis between 30% and 100% if annual compound TSR is between 10% and 20%.

The remainder of the options are not subject to any performance criteria. All granted options have a three-year vesting period from the grant date and will remain exercisable for seven years after the vesting date.

The number and weighted average exercise prices of share options are as follows:

	2018		2017	
	Weighted average exercise price US$	Number of options	Weighted average exercise price US$	Number of options
Outstanding at 1 January	**0.53**	**27,421,750**	0.62	20,501,000
Granted during the year	**0.13**	**7,630,000**	0.27	8,609,750
Forfeited during the year	**0.19**	**(385,000)**	0.27	(1,689,000)
Outstanding at 31 December	**0.30**	**34,666,750**	0.53	27,421,750

The options outstanding at 31 December 2018 had exercise prices in the range of US$0.16 to US$0.4 and a weighted average contractual life of 7.51 years.

31. Share-based payment arrangements continued

Inputs for measurement of grant date fair values

The fair value of each stock option granted was estimated on the date of grant using the Black-Scholes option-pricing model with the following inputs:

Fair value of share options and assumptions

	2018	2017
Weighted average fair value at grant date for options issued during the year	US$0.13	US$0.12
Share price at grant date – Stock options issued on 3 August 2018	US$0.26	–
Share price at grant date – Stock options issued on 28 June 2017	–	US$0.21
Share price at grant date – Stock options issued on 23 August 2017	–	US$0.22
Share price at grant date – Stock options issued on 1 October 2017	–	US$0.23
Exercise price – Stock options issued on 03 August 2018	US$0.26	–
Exercise price – Stock options issued on 28 June 2017	–	US$0.20
Exercise price – Stock options issued on 23 August 2017	–	US$0.21
Exercise price – Stock options issued on 1 October 2017	–	US$0.23
Option life (Expected life in Years) of options issued during the year	6 year	6 year
Weighted average expected volatility – Stock options issued during the year	55%	57%
Weighted average Risk-free Interest rate for options issued during the year	1.11%	0.68%
Expected dividends	na	na

Volatility was estimated with reference to empirical data for proxy companies with listed equity.

Share option scheme (equity-settled)

The Group established a share option scheme available to Directors, key management personnel, employees and consultants providing employment-type services, which provides the opportunity to purchase shares in the Group. In accordance with the scheme, holders of vested options are entitled to purchase shares at prices of the shares established at the date of grant, during a period expiring on the tenth anniversary of the effective date i.e. grant date. The grant dates for awards were 3 December 2010, 1 June 2011, 1 November 2011, 4 June 2012, 19 February 2013, 7 April 2013, 17 May 2013 and 26 March 2014 based upon a shared understanding of the terms of the awards at that time. This share option scheme has been replaced by the LTIP scheme described above. As such, no new options were granted in 2018 under this scheme.

The number and weighted average exercise prices of share options are as follows:

	2018		2017	
	Weighted average exercise price US$	Number of options	Weighted average exercise price US$	Number of options
Outstanding at 1 January	0.47	16,358,125	0.47	16,358,125
Granted during the year	–	–	–	–
Forfeited during the year	–	–	–	–
Exercised during the year	–	–	–	–
Outstanding at 31 December	0.47	16,358,125	0.47	16,358,125
Exercisable at 31 December	0.47	16,358,125	0.47	16,358,125

The options outstanding at 31 December 2018 have a weighted average contractual life of 3.18 years (2017: 4.05 years).

31. Share-based payment arrangements continued

Non-Executive Director Share Plan (equity-settled)
The Board established the Non-Executive Director share plan on 21 December 2015.

These stock options are not subject to any performance criteria and vest three years from the grant date, subject to successful completion of a three-year service period starting on the grant date. The options can be exercised over a seven-year period beginning on the expiry of the service period.

Further to previous awards under the Non-Executive Director Share Plan, the Board approved the award of 600,000 stock options on 3 August 2018.

The number and weighted average exercise prices of share options are as follows:

	2018		2017	
	Weighted average exercise price US$	Number of options	Weighted average exercise price US$	Number of options
Outstanding at 1 January	0.35	1,500,000	0.43	1,000,000
Granted during the year	0.13	600,000	0.27	500,000
Outstanding at 31 December	0.24	2,100,000	0.35	1,500,000

The options outstanding at 31 December 2018 had a weighted average exercise price of 0.16 to 0.4 and a weighted average contractual life of 8.36 years.

Inputs for measurement of grant date fair values

The fair value of each stock option granted was estimated on the date of grant using the Black-Scholes Option Pricing Model with the following inputs:

	2018	2017
Weighted average fair value at grant date	US$0.13	US$0.12
Share price at grant date	US$0.26	US$0.22
Exercise price	US$0.26	US$0.21
Option life (Expected life in Years)	6.0	6.0
Expected volatility – Stock options issued	55%	57%
Risk-free Interest rate	1.11%	0.68%
Expected dividends	na	na

Employee benefit expenses

	2018 US$'000	2017 US$'000
Non-Executive Director Share Plan (equity-settled)	72	57
Long-term incentive plan scheme (equity-settled)	1,102	1,081
Share option scheme (equity-settled)	–	59
Total expense recognised as employee costs	1,174	1,197

32. Related party transactions

The Group had transactions during the period with the following related parties:

(a) Transactions with key management personnel

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly. These are the Directors of the Group.

(i) Loans to key management personnel

An unsecured loan of US$1,500,000 was granted to a Director on 9 December 2014. The loan had a three-year term and bears interest at a rate of four per cent per annum. Repayment was due at the end of the term. In September 2017, the loan was extended for another 3 years up to 9 December 2020 under the same terms and conditions.

Following the adoption of IFRS 9, the Group recognised a US$0.07 million ECL provision at the beginning of the year (see Note 5.1).

At 31 December 2018, the balance outstanding was US$1,707,947 (2017: US$1,691,364) and is included in 'Other receivables'. Interest income from the loan during the year amounted to US$68,000 (2017: US$ 65,000).

(ii) Key management personnel transactions

Transactions with key management and related parties are summarised below:

- The Group sponsored an entrepreneurship development initiative valued at US$5,600 as part of its corporate social responsibility activities. The programme was organised by Accent Entrepreneurship Initiative, a company promoted by persons related to a Director.
- The Group also donated US$2,800 to Murtala Muhammed Foundation which is led by a Director toward corporate social responsibility activities.
- The Group engaged the services of Aluko & Oyebode, a company related to a Director for legal advisory services valued at US$9,800.
- There is an outstanding balance of US$0.33 million (2017: US$1.72 million) with respect to well completion services rendered by SOWSCO Wells Services Nigeria Limited, a company controlled by a Director.

(iii) Key management personnel compensation

Details of key management personnel compensation during the year have been disclosed in the remuneration report on pages 30 to 33.

(iv) Key management personnel and Director transactions

Directors of the Company control 8.27% (2017: 8.27%) of the voting shares of the Company.

(b) LEKOIL Limited, has a Management & Technical Services Agreement with LEKOIL Management Corporation ("LMC") under the terms of which LMC was appointed to provide management, corporate support and technical services. The remuneration to LMC includes reimbursement for charges and operating costs incurred by LMC.

33. Group entities

(a) Significant subsidiaries:

	Country of incorporation	Ownership interest 2018	2017
LEKOIL Nigeria Limited (See (a)(i))	Nigeria	**40%**	40%
LEKOIL Exploration and Production (Pty) Limited	Namibia	**80%**	80%
LEKOIL Management Corporation	USA	**100%**	100%
LEKOIL 310 Limited	Cayman Islands	**100%**	100%
LEKOIL Management Services	Cayman Islands	**100%**	100%

(i) Although the Company holds less than a 50% ownership interest in LEKOIL Nigeria Limited, it has control over the entity through common Directors and it is entitled to 90% of the economic benefits related to its operations and net assets based on the terms of agreements under which the entity was established. Consequently, the Company consolidates LEKOIL Nigeria Limited.

LEKOIL Nigeria Limited has ten wholly owned subsidiaries, namely: Mayfair Assets and Trust Limited, LEKOIL Oil & Gas Investments Limited, LEKOIL Exploration and Production Nigeria Limited, LEKOIL Energy Nigeria Limited, Princeton Assets and Trust Limited, Lekgas Nigeria Limited, Lekpower Limited, LEKOIL Supply and Trading Limited, LEKOIL Oil and Gas Integrated Limited and LEKOIL 24 Limited. The results of these subsidiaries have been included in the consolidated financial results of LEKOIL Nigeria Limited.

(b) Non-controlling interests (NCI)

The following table summarises the information relating to each of the Group's subsidiaries, before any intra-group eliminations:

31 December 2018

	LEKOIL Nigeria Limited Group	LEKOIL Exploration and Production (Pty) Limited	Intra-group eliminations	**Total**
NCI percentage	10%	20%		
	US$'000	US$'000	US$'000	**US$'000**
Non-current assets	193,061	–	–	**–**
Current assets	55,862	152	–	**–**
Non-current liabilities	(331,118)	(1,521)	–	**–**
Current liabilities	(28,704)	(361)	–	**–**
Net assets	(110,900)	(1,730)	–	**–**
Carrying amount of NCI	(11,090)	(346)	7,487	**(3,949)**
Revenue	48,687	–	–	**–**
Profit/(loss)	12,875	(652)	–	**–**
Net finance cost	(30,965)	(51)	–	**–**
Income tax expense	(10,077)	–	–	**–**
Total comprehensive income	(28,167)	(703)	–	**–**
Profit/(loss) allocated to NCI	(2,817)	(141)	3,099	**141**
OCI allocated to NCI	–	–		
Cash flows from operating activities	(33,526)	566	–	**–**
Cash flows from investment activities	17,253	(439)	–	**–**
Cash flows from financing activities	12,952	(51)	–	**–**
Net increase/(decrease) in cash and bank balances	(3,321)	76	–	**–**

33. Group entities continued

31 December 2017

	LEKOIL Nigeria Limited Group	LEKOIL Exploration and Production (Pty) Limited	Intra-group eliminations	Total
NCI percentage	10%	20%		
	US$'000	US$'000	US$'000	US$'000
Non-current assets	184,874	440	–	–
Current assets	87,970	75	–	–
Non-current liabilities	(324,808)	(1,267)	–	–
Current liabilities	(40,758)	(77)	–	–
Net assets	(92,722)	(829)	–	–
Carrying amount of NCI	(9,272)	(166)	5,348	(4,090)
Revenue	30,848	–	–	–
Loss	(10,388)	(381)	–	–
Net finance income/(cost)	(24,200)	52	–	–
Income tax benefit	21,338	–	–	–
Total comprehensive income	(13,250)	(329)	–	–
Profit/(loss) allocated to NCI	(1,325)	(66)	2,737	1,346
OCI allocated to NCI	–	–	–	–
Cash flows from operating activities	(9,555)	(156)	–	–
Cash flows from investment activities	15,037	(108)	–	–
Cash flows from financing activities	(2,066)	273	–	–
Net increase in cash and bank balances	3,416	9	–	–

34. Events after the reporting date

In March 2019, the Group announced it has completed refinancing and redenomination of its outstanding Naira debt facilities, totalling approximately 3.08 billion Naira, into United States Dollars (USD). These facilities included the approximate 2.25 billion Naira facility (principal) from FBN Merchant Bank ("FBNM") and the 827 million Naira facility (principal and accrued interest) from Sterling Bank plc ("Sterling"). Interest per annum on these facilities were 6% + NIBOR and 26%, respectively (refer Note 28).

In May 2019, the Group announced the resignation of Lisa Mitchell, the Company's Chief Financial Officer.

Greg Eckersley, Non-Executive Director and until recently the Global Head of Internal Equities at the Abu Dhabi Investment Authority (ADIA), assumed the role of interim Chief Financial Officer. Greg is currently Chairman of LEKOIL's Remuneration Committee and is a member of the Company's Audit Committee.[1]

Following a series of adjournments, a Federal High Court sat in Ikoyi, Lagos State, Nigeria, on 7 February 2019 and heard the matters presented before it and on 28 March 2019, the Court delivered its ruling, stating that the Company's purported acquisition of shares in AIOGNL and by that, the interest in OPL 310, is inchoate and invalid given the failure to obtain Ministerial Consent in respect of the transfer of the said shares. The Judge also ruled that pursuant to Articles 13.1.4 and 13.1.5 of the Joint Operating Agreement between Optimum and AIOGNL, Optimum's consent is required to effect a transfer of AIOGNL's interest in OPL 310 or any part thereof to LEKOIL. LEKOIL is however still in the process of negotiating definitive agreements that would enable LEKOIL to continue to work the OPL 310 asset pending receipt of Ministerial Consent.

The implication of the Judge's pronouncement that LEKOIL 310 Limited has not acquired the shares of AIOGNL is that, pending the receipt of Ministerial consent to the acquisition, the 22.86 per cent participating interest in OPL 310 is still held by AIOGNL.

(1) Gregory Eckersley will step down from his role in the Remunerations Committee during the period he is acting as interim Chief Financial Officer.

34. Events after the reporting date continued

LEKOIL and Optimum had previously requested that the Federal Ministry of Petroleum Resources grant an extension of the OPL 310 license beyond February 2019 to recover its position over the past three years, lost due to regulatory delays beyond the Company's control. The Company advises that it has received correspondence by letter (the "Letter") from the Ministry of Petroleum Resources relating to an application for an extension (re-award) to the OPL 310 licence. The Letter states that the Government has noted that the OPL 310 licence expired on 10 February 2019 and ownership of OPL 310 has accordingly reverted to the Government in line with Petroleum Act. The Letter further sets out that the re-award will not be considered by the Honourable Minister of Petroleum Resources ("HMPR") until such point as the suit filed by LEKOIL against the HMPR is withdrawn by LEKOIL and other parties to the action. Failure by LEKOIL and others to withdraw the suit within thirty (30) days of the Letter, which was dated 8 May 2019, forecloses any consideration of re-award to Optimum, LEKOIL and their affiliates or subsidiaries. The Company therefore has withdrawn its legal action. The Company will also continue engagements with the regulator and the Operator of OPL 310, to conclude agreements and resolve all outstanding issues.

The Company also notes that the letter, does not state that the application for a licence extension was denied and thus it is still pending because the application was submitted prior to the expiry date. The Company is hopeful that having complied with the direction of the HMPR, such extension (re-award) will be granted.

35. Financial commitments and contingencies

(a) In July 2017, LEKOIL Exploration and Production (Pty) Limited, a subsidiary of LEKOIL, relinquished Namibian block 2514A and renewed block 2514B until July 2019. It has been noted that there is low prospectivity on block 2514B. The Directors have decided to relinquish the Company's interest in block 2514B and are in process of commencing a voluntary winding up of LEKOIL Exploration and Production (Pty) Limited.

The Group has met the financial commitments regarding the work programme on block 2514B and does not anticipate any further financial consequences relating to the work programme.

(b) On 5 December 2014, the Green Energy International Limited/LEKOIL Oil and Gas Investments Limited joint operation signed a Memorandum of Understanding (MoU) with its host community, Ikuru with respect to the Otakikpo marginal field area. The key items of the MoU include the following:

- The joint operation will allocate 3% of its revenue from the Liquefied Petroleum Gas (LPG) produced from the field to the Ikuru Community in each financial year;
- The joint operation will allocate the sum of US$0.53 million (NGN 90 million) annually for sustainable community development activities.

(c) In May 2015, the Company provided a corporate guarantee in favour of FBN Capital for the full sum of the loan notes issued by LEKOIL Oil and Gas Investment Limited, a subsidiary of the Company.

(d) In March 2017, the Company provided a corporate guarantee in favour of Shell Western Supply and Trading Limited for the full sum of the Advance Payment Facility with LEKOIL Oil and Gas Investment Limited, a sub-subsidiary of the Company.

(e) In June 2018, the Company issued a corporate guarantee for the re-denomination of existing term loan facility of NGN 2.3 billion availed to LEKOIL Oil and Gas Investments Limited plus the refinancing of Sterling bank facility to an US$8.4 million term loan facility for funding Otakikpo operations.

(f) In September 2018, First Bank Nigeria Plc issued a guarantee on behalf of Otakikpo Joint Operation (LEKOIL and GEIL) in favour of SINOPEC Chanjiang Engineering Services Limited towards the release of final report on the 3D seismic data acquired from the Otakikpo marginal field.

The obligation on the SINOPEC contract was fully settled in January 2019 and guarantee withdrawn.

(g) Litigation and claims
Litigations and claims involving the Group are summarised below:

(i) The Company announced in March 2018 that it had instituted a suit at the Federal High Court for a declaration that is expected to expedite the consent process and preserve the unexpired tenure in the OPL 310 license. On 8 February 2019 the Court granted LEKOIL's application to hold in abeyance or suspend the unexpired term of OPL 310 pending the delivery of the Court's ruling on the originating suit. Subsequently on 28 March 2019, the Court ruled that the Company's acquisition (through its wholly owned subsidiary LEKOIL 310 Limited) of Afren Investments Oil and Gas Nigeria Limited ("AIOGNL"), the holder of the 22.86 per cent. participating interest in OPL 310, requires Consent. LEKOIL had initially filed an appeal against the decision of the Federal High Court, but decided to withdraw legal action following receipt of a letter from the Ministry of Petroleum Resources relating to an application for an extension (re-award) to the OPL 310 licence (the "Letter"), which set out that the re-award would not be considered by the Honourable Minister of Petroleum Resources ("HMPR") until such point as the suit filed by LEKOIL against the HMPR is withdrawn by LEKOIL and other parties to the action. LEKOIL will continue its engagements with the regulator and Optimum to conclude agreements and resolve all outstanding issues on the Asset. (refer Note 34 above)

35. Financial commitments and contingencies continued

(ii) Guy-Us Safety and Environmental Engineering Limited (the "Claimant") instituted a claim against Afren Investment Oil & Gas Nigeria Limited (AIOGNL) and LEKOIL 310 Limited being the outstanding sum relating to the contract for a two season baseline seabed survey (wet and dry) for the OPL 310 offshore development Nigeria (the "Contract") performed between 2014 – 2015 before the acquisition of AIOGNL by LEKOIL 310 Limited (the Acquisition). At the last hearing on 29 April 2019, the case was struck out for lack of diligent prosecution. The matter has been relisted although no date has been scheduled for hearing as yet.

(iii) Ayi Emokpae (trading under the name and style "Smart Contracting Solutions Services" instituted a claim against LEKOIL Nigeria Limited for an alleged breach of contract for training of LEKOIL staff; as well as general and special damages. LEKOIL is of the opinion that the contract was not awarded as the parties were still at negotiation phase. At the last hearing on 14 May 2019 the parties agreed pursuant to court-appointed mediation process, to settle the matter out of court .

(iv) Mr Sotonye Boyle a former employee of the Group, instituted a claim against LEKOIL Nigeria Limited at the National Industrial Court of Nigeria, Port Harcourt Judicial Division, for wrongful termination of employment. At the last hearing on 5 April 2019, the case was adjourned indefinitely as the presiding judge was reassigned to handle election petition matters. Upon his return from election tribunal duties, parties will be informed of a date for the continuation of the matter.

(v) Other than the matters disclosed above, there are no litigations or claims involving the Group as at 31 December 2018 (2017: Nil).

36. Financial risk management and financial instruments

Overview

The Group has exposure to the following risks from its use of financial instruments:

- credit risk
- liquidity risk
- market risk

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital. Further quantitative disclosures are included throughout these financial statements.

Risk management framework

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework.

The Group's risk management policies are established to identify and analyse risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations (refer to corporate governance framework on pages 20 to 23).

(a) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the Group's receivables from joint operating partners, employees and related parties.

Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

In US Dollars	Notes	**2018 US$'000**	2017 US$'000
Cash and bank balances	24	**10,423**	6,922
Trade receivables	20	**8,814**	6,044
Other receivables	21	**7,491**	6,167

In respect of the Group's trade sales, the Group manages credit risk through dealing with, whenever possible, international energy companies or those with a track record of creditworthiness. The Group closely monitors the risks and maintains a close dialogue with those counterparties considered to be highest risk in this regard. The Group trades only with recognised, creditworthy third parties, and as such collateral is not requested nor is it the Group's policy to securitise its trade and other receivables.

36. Financial risk management and financial instruments continued

In respect of other receivables, they consist largely of receivables from joint operating partners and Directors loans. Management has assessed that the receivable from GEIL is unimpaired as the Group has agreed a repayment plan with GEIL whereby the Group pays less amount for its share of cash call obligation until the amount is fully received. Following the adoption of IFRS 9 in 2018, the Group has recognised an ECL provision for the full sum of the receivable due from Afren Investment Oil & Gas (Nigeria) Limited.

For Director's loan, an ECL provision of US$0.07 million was recognised at the beginning of 2018, while the outstanding receivable balance at year end is US$1.71 million. Management has assurances from the Director that the balance on the Director's loan will be paid in full when it falls due at maturity.

The Group recovered the majority of the closing 2017 pre-paid development costs balance during the year, from crude, and the outstanding balance of pre-paid development costs as at December was fully recovered after year end.

Cash and bank balances

The cash and bank balances of US$10.4 million (2017: US$6.9 million) are held with reputable financial institutions with very high credit ratings. The treasury manager monitors the financial position of the financial institutions on a periodic basis.

(b) Liquidity risk

Non-derivative financial liabilities

The following tables detail the remaining contractual maturity for non-derivative financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay.

	Weighted average effective interest rate	Less than 1-month US$'000	1-3 months US$'000	3 months to 1-year US$'000	1-5 years US$'000	5+ years US$'000	Total US$'000
31 December 2018							
Non-interest bearing	n/a	13,623	–	–	–	–	13,623
Variable interest rate instrument	13.75%						
Principal repayments		–	2,855	8,565	9,628	–	21,048
Interest repayments		–	780	1,404	938	–	3,122
		13,623	**3,635**	**9,969**	**10,566**	**–**	**37,793**
31 December 2017							
Non-interest bearing	n/a	32,475	–	–	–	–	32,475
Variable interest rate instrument	13.23%						
Principal repayments		–	2,506	8,743	21,048	–	32,297
Interest repayments		–	976	2,758	3,122	–	6,856
		32,475	3,482	11,501	24,170	–	71,628

(c) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

The Group manages market risks by monitoring market developments, forecasting and scenarios planning; and discussing issues regularly, and deploying mitigating actions where necessary. The Group's cash flow model anticipates different possible scenarios and proffers the action plans for each scenario including match inflows to outflows.

Currency risk

The Group is exposed to currency risk on bank balances, employee receivables and trade and other payables denominated in Nigerian Naira.

36. Financial risk management and financial instruments continued

The summary of quantitative data about the Group's exposure to currency risks are as follows:

	Carrying amounts	
	2018 US$'000	2017 US$'000
Trade and other receivables	**32**	38
Cash and bank balances	**667**	276
Trade and other payables	**(822)**	(2,507)
Net exposure	**(123)**	(2,193)

Sensitivity analysis

A 20 percent strengthening of the US Dollar against the following currencies at 31 December would have increased (decreased) equity and loss by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant.

31 December 2018		**Foreign exchange rate risk**			
		20%		**(-20%)**	
	Carrying amount US$'000	**Profit or loss US$'000**	**Other movements in Equity US$'000**	**Profit or loss US$'000**	**Other movements in Equity US$'000**
Financial assets:					
Naira					
Cash and bank balances	**667**	**133**	**–**	**(133)**	**–**
Trade and other receivables	**32**	**6**	**–**	**(6)**	**–**
Impact on financial assets	**–**	**139**	**–**	**(139)**	**–**
Financial liabilities:					
Naira					
Loans and borrowings	**(8,190)**	**(1,638)**	**–**	**1,638**	**–**
Accounts payable	**(822)**	**(164)**	**–**	**164**	**–**
Impact on financial liabilities	**–**	**(1,802)**	**–**	**1,802**	**–**
Total increase/(decrease)	**–**	**(1,663)**	**–**	**1,663**	**–**

31 December 2017		Foreign exchange rate risk			
		20%		(-20%)	
	Carrying amount US$'000	Profit or loss US$'000	Other movements in Equity US$'000	Profit or loss US$'000	Other movements in Equity US$'000
Financial assets:					
Naira					
Cash and bank balances	276	55	–	(55)	–
Trade and other receivables	38	8	–	(8)	–
Impact on financial assets	–	63	–	(63)	–
Financial liabilities:					
Naira					
Loans and borrowings	(8,862)	(1,772)	–	1,772	–
Accounts payable	(2,507)	(501)	–	501	–
Impact on financial liabilities	–	(2,273)	–	2,273	–
Total increase/(decrease)	–	(2,210)	–	2,210	–

The amounts shown represent the impact of foreign currency risk on the Group's consolidated profit or loss. The foreign exchange rate movements have been calculated on a symmetric basis. This method assumes that an increase or decrease in foreign exchange movement would result in the same amount and further assumes the currency is used as a stable denominator.

36. Financial risk management and financial instruments continued

(d) Fair values

Fair values vs carrying amounts

The following table shows the carrying amounts and fair values of financial assets and financial liabilities. It does not include fair value information for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value.

31 December 2018	Note	Carrying amount		
		Loans and receivables US$'000	Other financial liabilities US$'000	Total US$'000
Loans and receivables				
Trade receivables	20	**8,814**	**–**	**8,814**
Other receivables	21	**7,491**	**–**	**7,491**
Cash and bank balances	24	**10,423**	**–**	**10,423**
		26,728	**–**	**26,728**
Financial liabilities measured at amortised costs				
Loan	28	**–**	**20,485**	**20,485**
Trade and other payables*	25	**–**	**10,023**	**10,023**
		–	**30,508**	**30,508**

31 December 2017	Note	Carrying amounts		
		Loans and receivables US$'000	Other financial liabilities US$'000	Total US$'000
Loans and receivables				
Trade receivables	20	6,044	6,044	
Other receivables	21	6,167	–	6,167
Cash and bank balances	24	6,922	–	6,922
		19,133	–	19,133
Financial liabilities measured at amortised costs				
Loan	28	–	29,509	29,509
Trade and other payables*	25	–	26,361	26,361
		–	55,870	55,870

* The carrying amount of trade and other payables is stated net of statutory deductions.

Company information

Financial calendar

Annual General Meeting

The Annual General Meeting of the Company will be held at 1.00 p.m. on 30 July 2019 at Churchgate Tower 1, 9th Floor, PC 30, Churchgate Street, Victoria Island, Lagos, Nigeria.

Announcements

- Half-year results for 2019 are expected in September 2019.

Dates are correct at the time of printing, but are subject to change.

Directors

Samuel Adegboyega *Non-Executive Chairman*

Olalekan Akinyanmi *Chief Executive Officer*

Lisa Mitchell *Chief Financial Officer*

H. Adesola Oyinlola *Non-Executive Director*

Gregory Eckersley *Non-Executive Director*

Aisha Oyebode *Non-Executive Director*

John van der Welle *Non-Executive Director*

Tom Schmitt *Non-Executive Director*

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