LEKOIL

SHAPING THE FUTURE OF OIL AND GAS EXPLORATION AND PRODUCTION IN AFRICA

Half Year Report 2020

LEKOIL is an Africa focused oil and gas exploration and production company with interests in Nigeria and dedicated to discovering potential in overlooked opportunities in new and existing basins.

Our mission is to become a world leading exploration and production company focused on Africa. We aim to shape the future of the oil and gas sector by maximising value for our stakeholders in a sustainable way, providing economic and social benefits to communities and minimising our environmental footprint.

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Highlights

Operational

- Otakikpo production averaged 5,676 bopd gross with 2,271 bopd net to LEKOIL Nigeria;
- As at 30 June 2020, the Group's share of equity crude was 408,800 barrels. The latest lifting is currently ongoing with US$4.0 million cash proceeds expected to be received by the Company;
- Phase Two plans are underway, subject to securing funding, for the drilling of up to seven wells where the first two wells are expected to increase gross production to 10,000 bopd;
- Successful completion of site survey operation on OPL 310;
- With most of the preparatory work concluded for the Ogo appraisal drilling programme and well locations selected, funding discussions are currently underway with industry partners.

Financial

- Net loss for the period of US$7.9 million (30 June 2019: loss of US$5.2 million);
- Significantly lowered general and administrative expenses, and as a result reduced current monthly run rate to approximately US$1.0 million;
- Period end cash and bank balances of US$4.6 million (31 December 2019: US$2.7 million);
- As at 30 June 2020, total outstanding debt financing, net of cash, stood at US$15.6 million (31 December 2019: US$16.5 million);
- Total cash balance as at 30 September 2020 of US$2.9 million, with US$1.3 million recognised as restricted cash.

Post reporting period events

- Renewed the offtake agreement with Shell Western Supply and Trading Limited for two years and included the provision of a US$3.5 million prepayment facility to aid short term liquidity. The facility, which is repayable from future crude oil liftings, has a tenor of five months and charges a market margin over LIBOR;
- Restructured the existing three interest-bearing term bank loans into one secured loan with FBNQuest Merchant Bank. The restructuring provided an extension of loan tenor with new term loan maturity date of 31 March 2024 representing an increase on the average maturity of the three existing bank loans by 15 months;
- Executed in conjunction with Green Energy International Limited ("GEIL"), the Operator of the Otakikpo Marginal Field, definitive agreements for the next phase of the Otakikpo marginal field development, which are made up of service agreements with Schlumberger, covering the comprehensive infrastructure upgrades and field management services in relation to the planned upstream drilling programme.

Chairman's and CEO's statement

> "Despite the challenges of the first six months of the year, we have navigated this demanding period with steady production and cashflow generation from Otakikpo while implementing a range of significant cost reduction initiatives across our operations. We are excited and encouraged by the interest received and the progress made towards raising the requisite financing to develop our high quality portfolio of assets and delivering on our drive to unlock the significant value that exists within them. We remain committed to creating value and generating attractive returns for our shareholders, our partners, employees and all our stakeholders." **Lekan Akinyanmi, CEO**

The COVID-19 pandemic during the first half of 2020 has been truly unprecedented. The health and safety of our employees and stakeholders has been our priority as we ensure that best practices and procedures are followed. As we continue to work hard to advance our appraisal and exploration assets, and the Otakikpo field through to its next development phase, the Company is increasingly focused on upholding the highest standards of Environmental, Social & Corporate Governance. Developing our fields in the most responsible way, environmentally and socially, as we strive to become a world leading exploration and production company.

LEKOIL was formed as an indigenous Nigerian upstream company, to exploit overlooked opportunities in new and existing basins in Africa and through this create a balanced portfolio of oil and gas exploration and production assets. We have sought to achieve this through leveraging a strong technical team, our experience, our industry and investment market relationships.

Within our portfolio of assets, we have Otakikpo, a producing asset with near term upside in the eastern Niger Delta; OPL 276, a potential near-term producing asset with significant resource potential; OPL 310, where the appraisal asset Ogo is located; and OPL 325 which provides additional exploration optionality.

Otakikpo – producing asset

Despite the wider impact of COVID-19, operations at Otakikpo continued to run effectively. For the first half of 2020, production from Otakikpo averaged approximately gross 5,676 bopd, (2,271 bopd net to LEKOIL Nigeria) compared to 5,822 bopd (2,329 bopd net to LEKOIL Nigeria) for the same period last year. The sixth lifting for the year is currently ongoing with cash proceeds of US$4.0 million expected to be received by the Company in the first week of November 2020, through an early payment option available from the Group's nominated offtaker, Shell Western Supply and Trading Limited ("SWST"). The next lifting is expected to occur in December 2020.

On 13 July 2020, on behalf of the Otakikpo Joint Operation ("Otakikpo"), the Group announced the execution of definitive agreements for the next phase of the Otakikpo marginal field development. These definitive agreements are made up of service agreements with Schlumberger which cover the comprehensive infrastructure upgrades and field management services in relation to the planned upstream drilling programme.

The upstream drilling programme consists of the following:

- Phased drilling of up to seven new wells in Otakikpo with project capital expenditures ("capex") estimated at US$110.0 million, of which the technical Partner, LEKOIL Oil and Gas Investments Limited ("LOGL"), in which the Company has a 90 per cent. economic interest, is expected to provide funding of US$44.0 million.
- Drilling of the first two wells, estimated at US$25.0 million (US$10.0 million net to LOGL), is expected to increase gross production to approximately 10,000 bopd which can be accommodated by existing infrastructure.

As announced on 13 July 2020, LOGL expects to raise, according to its participating interest, its own portion of the required funding for the first two wells from a combination of offtake financing from a subsidiary of a major international oil company and cashflow from existing production. Funding for subsequent wells are expected to come from the cashflow generated by incremental production. Rig mobilization is expected to occur as soon as the partners of the Joint Operation have both raised funding for the first two wells, according to their respective participating interest.

OPL 310 – appraisal and exploration asset

On 2 January 2020, the Company announced that it had secured funding for the appraisal drilling and the initial development programme on the Ogo field through a loan agreement with the Qatar Investment Authority ("QIA"). However, the Company discovered on 13 January 2020 that the loan agreement was instead signed with certain individuals falsely purporting to represent the QIA. As such, there was no valid loan agreement entered into with the QIA. To respond to this, the Board established an independent committee to investigate the origination of the loan agreement and commenced steps to recover the funds paid for its execution to an intermediary. A detailed review of the Company's wider corporate governance practices and procedures for the approval of major transactions was also conducted. As a priority, the Board will improve its standards of corporate governance and has already begun to implement the recommendations received.

As part of the planned two-well appraisal programme with the objective of obtaining dynamic flow data from well testing while preserving the drilled wells as producers, a site survey was required for the evaluation of top-hole drilling, jack-up rig and potential platform foundation hazards and any seabed obstructions. Approval for the site survey was granted by the Department of Petroleum Resources ("DPR"), in accordance with provisions of the Petroleum (Drilling and Production) Regulations. On 9 January 2020, the marine vessel conducting the site survey arrived at location and commenced the operation. The site survey was successfully completed in the first quarter of this year without any reported personnel injuries or damage to the environment. All data acquisition objectives were met during the operations which were completed before the scheduled expiration of the approval received from the DPR. With the site survey completed, selection of the appropriate rig to commence appraisal drilling can be concluded.

On 21 January 2020, pursuant to the Cost and Revenue Sharing Agreement ("CRSA"), LEKOIL was required to pay US$5.6 million to the Operator of OPL 310 Licence, Optimum Petroleum Development Company ("Optimum"). The payment represented a portion of Optimum's sunk costs. Optimum and LEKOIL agreed for this payment and the balance of consent fees (US$4.0 million) which comes to a total of US$9.6 million to be deferred such that US$2.0 million and US$7.6 million are paid by the 20 March 2020 and 2 May 2020, respectively.

Following the payment of US$2.0 million to Optimum due in March 2020, a further agreement was obtained for a deferred payment schedule for the final payment due in May 2020 of US$7.6 million such that US$1.0 million was to be paid on or before 15 July 2020, US$2.0 million to be paid by 30 September 2020 and the balance of US$4.6 million by 30 November 2020. As announced on 15 July 2020, the Company confirmed the payment of US$1.0 million as agreed.

The Company is in discussions with Optimum regarding a deferment of the payment due on the 30 September 2020 of US$2.0 million. The intention is to focus the Company's resources on securing funding for the second phase of the Otakikpo development as well as the Ogo appraisal programme. The Company is hopeful of a mutually acceptable solution being reached between the Parties and will update shareholders as and when appropriate.

OPL 276 – appraisal and exploration asset

OPL 276 covers a territory located in the eastern Niger Delta basin which is partly onshore (land and swamp) and partly shallow marine (tidal river estuary). The Licence area is within 20 kilometres from three existing producing fields: Effiat-Abana, Stubb Creek and Uquo.

The asset represents an excellent opportunity to further build our growing production base in line with our stated strategy to create a balanced portfolio of assets. The Company sees a clear opportunity for re-entering one or more of these discovery wells, with the potential for rapid monetisation of resources thanks to close proximity to existing export facilities.

The acquisition of the 45% participating interest in the Production Sharing Contract ('PSC") in relation to this asset is conditional upon, among other things, the extension of the term of the Licence and the PSC, obtaining the consent of the Nigerian National Petroleum Corporation ("NNPC") and obtaining the approval of the Minister of Petroleum Resources of the Federal Republic of Nigeria. The application for extension has been filed with the NNPC and awaits approval from both the NNPC and ultimately the Minister of Petroleum Resources.

OPL 325 – exploration asset

OPL 325 located in the offshore Dahomey Basin, was identified as an area of interest to us in our proprietary Dahomey Basin study of the western side of the Niger Delta. The asset which lies approximately 50km to the south of OPL 310, is believed to be a promising exploration asset containing an exciting deep water turbidite fan play. The Company holds a significant indirect interest in the asset via our subsidiary, Ashbert Oil and Gas Limited. The Licence covers an area of some 1,200 square kilometres and has gross unrisked prospective resources estimated by Lumina Geophysical of 5.7 billion Boe.

Terms for a PSC in relation to OPL 325 have been negotiated and agreed between the NNPC and the contractor parties which is made up of the National Petroleum Development Company ("NPDC") and Local Content Vehicles. Execution of the PSC is expected to occur in the second half of this year. Subsequent to the execution of the PSC, the Company intends to farm-down a portion of its interest following a detailed prospect and lead risking study which is almost complete.

Financial review

In the six months ended 30 June 2020, the Group recorded an after tax loss of US$7.9 million (30 June 2019: loss of US$5.2 million) and ended the period with cash and bank balances of US$4.6 million. Total outstanding debt financing, net of cash, was US$15.6 million, a decrease from US$16.5 million at the end of 2019.

With the significant drop in oil prices in the first half of 2020, the Board approved the immediate annual reduction of US$8.0 million or at least 40% in general and administrative expenses. The Group has significantly reduced rent and facility management expenses, headcount, travel costs, as well as IT and telecommunication expenses, and subsequent to the reporting period end, has reduced the general and administrative monthly run rate to US$1.0 million.

The offtake agreement with Shell Western Supply and Trading Limited ("SWST") which was due to expire in the second quarter of this year, was renewed for two years and included the provision of a US$3.5 million prepayment facility to aid short term liquidity. The facility, which is repayable from future crude oil liftings, has a tenor of five months and charges a market margin over LIBOR.

Following the end of the reporting period, on 17 August 2020, it was announced that the existing three interest-bearing term bank loans were restructured into one secured loan with FBNQuest Merchant Bank. The restructuring provided an extension of loan tenor with new term loan maturity date of 31 March 2024 representing an increase on the average maturity of the three existing bank loans by 15 months. A cash saving of over US$3.0 million during the next 15 months was also delivered from the new sculpted loan principal repayment schedule compared to the previous loan structure.

Chairman's and CEO's statement

The Board and Management team regularly monitor the Company's cashflow projections. The cash balance as at the end of September 2020 was US$2.9 million, with US$1.3 million recognised as restricted cash.

Board and Management update

In January 2020, upon completion of a six-month term in the position of interim Chief Financial Officer, Gregory Eckersley, stepped down from his previous role on LEKOIL's Board as a Non-Executive Director.

The Company's finance function is now being overseen by a recently appointed Chief Financial Officer of Nigerian operations, with wider Board oversight.

At the beginning of 2020, following the departure of Non-Executive Directors, John van der Welle and Gregory Eckersley, the Board was joined by Rt. Hon. Mark Simmonds and Mr. Anthony Hawkins as Non-Executive Directors. As the former Foreign & Commonwealth Office Minister with responsibilities for Africa, the Caribbean, UK Overseas Territories, International Energy and Conflict Prevention, Rt. Hon. Mark Simmonds brings a deep knowledge of the economic and political composition of African Governments, countries and regions. Mr. Anthony Hawkins brings twenty years' experience in English and Australian law, having worked in both private practice and corporate roles. He was previously the Chief Executive Officer at Columbus Energy Resources plc.

In April 2020, Thomas Schmitt and Hezekiah Adesola Oyinlola stepped down from the Board. Following these changes in the Board composition, Mr. Anthony Hawkins assumed the role of Chair of the Audit and Risk Committee and Mrs. Aisha Muhammed-Oyebode retained the role of Chair of the Remuneration Committee.

In September 2020, the Non-Executive Chairman of the Company, Mr. Samuel Adegboyega, announced his planned retirement from the Board of Directors after nine years of service and his role as Non-Executive Chairman after eight years in that position. Following this departure, Rt. Hon. Mark Simmonds has assumed the role of Non-Executive Chairman of the Board of Directors.

Outlook

While the first six months of the year has been challenging for the oil and gas industry with the detrimental effects of the COVID-19 pandemic and the subsequent drop in oil price, LEKOIL has navigated this demanding period with steady production and cashflow generation from Otakikpo in conjunction with significant cost reduction initiatives which are beginning to pay off as the wider global economy improves.
We remain committed to creating value and attractive returns for our shareholders, our partners, employees and all our stakeholders.

We are delighted with the progress being made towards increasing production at Otakikpo and the support we are receiving from our financial partners.

On our world class asset, OPL 310, we have kept our financial commitments and are currently holding discussions with industry partners and service providers on a combination of direct investment into the asset and cost effective vendor financing options.

We continue to strive to be responsible with our communities and efficient in our operations, acknowledging the importance of gas in our portfolio to solve energy solutions in a sustainable manner.

Finally, on behalf of the Board, we would like to again thank all our stakeholders for their dedication, commitment, fortitude and patience as we continue moving forward in building a leading Africa-focused exploration and production company.

Mark Simmonds
Non-Executive Chairman

Olalekan Akinyanmi
Chief Executive Officer

29 October 2020

Financial review

For the period ended 30 June 2020

The Group recorded a total comprehensive loss of US$7.9 million for the six months ended 30 June 2020 (30 June 2019: loss of US$5.2 million) and ended the period with cash and bank balances of US$4.6 million. Total outstanding debt financing, net of cash, was US$15.6 million, a decrease from US$16.5 million at the end of 2019.

Revenues

The Group recorded revenue totalling US$13.9 million, representing the Group's share of crude oil sales from its Otakikpo operation during the period, which is recognized as revenue ("equity crude"). The total revenue was 38% lower compared to US$22.3 million reported for the corresponding period of last year. The decrease was mainly due to the significant drop in crude prices experienced during the COVID-19 pandemic. Realised average sales price for the first six months of this year was approximately US$33.9 per barrel, down 45% from the same period last year of US$61.6 per barrel.

The Group's share of equity crude was 408,800 barrels (30 June 2019: 362,077 barrels), out of which it lifted 384,936 barrels (30 June 2019: 345,746 barrels). The balance of 23,863 barrels (30 June 2019: 16,331 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.

Cost of sales, operating expenses and administrative expenses

Underlying cost of sales was US$7.3 million (30 June 2019: US$8.2 million). Operating expenses and general and administrative expenses were US$3.6 million and US$8.4 million, respectively (30 June 2019: US$4.3 million and US$9.3 million, respectively). Operating expenses captures the Group's share of expenditure incurred on production operation support activities such as accommodation for field personal. Following from lower crude oil prices due to the COVID-19 pandemic, the Group recognised an impairment charge of US$3.5 million (30 June 2019: nil).

In line with previous announcements and due to significant drop in oil prices in the first half of 2020, the Board approved on 3 April 2020, the immediate and accelerated implementation of cost reduction measures aimed at targeting an annual reduction of US$8.0 million or at least 40% in general and administrative expenses. Over the first six months of the year, the Group has significantly reduced rent and facility management expenses, headcount, travel costs and IT and telecommunication expenses. Subsequent to the reporting period, the Group's current general and administrative expense monthly run rate has been reduced to US$1.0 million, reflecting further execution of our strategic initiatives.

Capital investment

The Group's capital expenditure during the six months ended 30 June 2020 amounted to US$5.5 million, compared to US$2.9 million for the corresponding period in 2019. This was mostly attributable to expenditure on site survey on OPL 310 and production facilities at Otakikpo.

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"). Income tax benefit for the six months ended 30 June 2020 amounted to US$2.2 million. (30 June 2019: tax expense of $4.0 million).

Cash and bank balances

As at 30 June 2020, the Group's cash and bank balances stood at US$4.6 million (31 December 2019: US$2.7 million). Restricted cash of US$0.3 million (31 December 2019: US$1.1 million) represents cash funding of the bank guarantee for MT Nox and Busy Snail contract. Restricted cash has been reported as part of other assets.

Loans and borrowings

The offtake agreement with Shell Western Supply and Trading Limited ("SWST") which was due to expire in the second quarter of this year, was renewed for two years and included the provision of a US$3.5 million prepayment facility to aid short term liquidity. The facility, which is repayable from future crude oil liftings, has a tenor of five months and charges a market margin over LIBOR.

In August 2020, the Group restructured the existing three interest-bearing term bank loans into one secured loan with FBNQuest Merchant Bank. The restructuring provided an extension of loan tenor with new term loan maturity date of 31 March 2024, representing an increase on the average maturity of the three existing bank loans by 15 months. Interest on the restructured loan will be paid quarterly in arrears with the pricing remaining at 10% over LIBOR. A cash saving of over US$3.0 million over the next 15 months was also delivered from the new sculpted loan principal repayment schedule compared to the previous loan structure. The restructured loan now comprises all of the Group's outstanding external bank debt.

Loans and borrowings

The Group had the following outstanding balance of interest-bearing loans and borrowings as at 30 June 2020:

In US$'000	Interest rate p.a.	30 Jun 2020	31 Dec 2019
US$10 million FBNC Capital Dollar Facility	10% + LIBOR	1,969	2,957
US$8.55 million FBN MB Facility	10% + LIBOR	3,536	5,236
US$11.5 million FBN MB Facility	10% + LIBOR	10,406	11,005
Working Capital Facility		850	–
Shell Western Advance Payment		3,501	–
Total		20,262	19,198
Less borrowings, current		(12,496)	(7,149)
Borrowings, non-current		7,766	12,049

Please refer to note 23 in the financial statements for a further breakdown.

Assets and liabilities

The Group's non-current assets increased from US$206.1 million as at 31 December 2019 to US$208.9 million as at 30 June 2020. Current assets, which include the Group's cash resources, other assets and other receivables, increased from US$11.4 million as at 31 December 2019 to US$12.2 million as at 30 June 2020. The increase in current assets was a result of the significant increase in period end cash balance which outweighed the reduction in cash call due receivables from Otakikpo joint operating partner (GEIL) and inventory. Inventories which consist of the Group's share of crude stock increased marginally from US$2.8 million as at 31 December 2019 to US$3.4 million as at 30 June 2020.

Current liabilities as of 30 June 2020 were US$44.5 million (31 December 2019: US$28.8 million) and consisted of the portion of the loan facilities due within twelve months, amounting to US$12.5 million (31 December 2019: US$7.1 million), trade and other payables amounting to US$30.5 million (31 December 2019: US$20.6 million) and current tax payables amounting to US$1.5 million (31 December 2019: US$1.1 million).

Non-current liabilities consist mainly of the long-term portion of the loan facilities amounting to US$7.8 million (31 December 2019: 12.0 million) and provision for asset retirement obligation of US$2.1 million (31 December 2019: US$2.3 million). Accordingly, net assets as at 30 June 2020 amounted to US$166.7 million, down from US$174.3 million as at 31 December 2019.

Dividend

The Directors do not recommend the payment of a dividend for the period ended 30 June 2020.

Accounting policies

The Group's significant accounting policies and details of the significant judgments and critical accounting estimates are consistent with those used in the 2019 annual financial statements.

Liquidity risk management and going concern

As at 30 June 2020, the Group had liquid resources of approximately US$4.6 million in the form of cash and bank balances available to meet capital, operating and administrative expenditure. Restricted cash of US$0.3 million used for bank guarantees is included in other assets.

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

The Directors draw the attention of the recurring losses after tax of US$7.9 million incurred in the current period (30 June 2019: US$5.2 million). The Group has a negative working capital position of US$32.3 million (31 December 2019: negative working capital of US$17.5 million), which is an indicator of a possible liquidity concern.

In addition to the Group's current working capital deficiency, the Directors are cognisant of the potential impacts of COVID-19 on the Group as there are unprecedented market conditions with significant oil price volatility. The Group will not be able to meet its financial obligations if the price of crude oil should drop as low as US$25 per barrel. Considering there is no price hedging currently in place, we have concluded that there is a material uncertainty that may cast significant doubt on the Group's ability to continue operating as a going concern.

The Group closely monitors and carefully 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 commodity prices and different production rates from the Group's producing asset. Cash forecasts have been updated in light of the oil price volatility seen in 2020. The Group's base assumptions show that it will be able to operate within its contractual debt facility taking into consideration the Group's debt restructure agreement announced on 17 August 2020, as well as its costs reduction strategy and as such have sufficient financial headroom for the 12 months from the date of approval of the interim financial statements.

The Group continues to closely monitor cash flow forecasts and would take mitigating action in advance including further reducing its operational costs; deferment of capital activities on OPL 310 and other capital projects until it has raised the required funds to execute them; to further renegotiate its debt obligation; and to raise additional funds if the need arise from either the equity or debt markets.

Notwithstanding the material uncertainty, the Directors' confidence in the Group's forecasts and the mitigating actions above, supports the preparation of the unaudited condensed financial statements on a 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.

This update has been approved by the Board and signed, on its behalf, by:

Olalekan Akinyanmi
Chief Executive Officer

29 October 2020

Independent review report

To the Members of LEKOIL Limited

We have been engaged by LEKOIL Limited ("the Company") and its subsidiaries (together referred to as "the Group") to review the condensed consolidated financial statements in the half-year financial report for the six months ended 30 June 2020 which comprises the condensed consolidated statement of profit or loss and other comprehensive income, the condensed consolidated statement of financial position, the condensed consolidated statement of changes in equity, the condensed consolidated cash flow statement and related notes in the interim financial information as at 30 June 2020. We have read the other information contained in the half-year financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed consolidated financial statements.

Directors' responsibilities

The half-year financial report is the responsibility of, and has been approved by, the Directors. The Directors are responsible for preparing the half-year financial report in accordance with the AIM Rules of the London Stock Exchange.

As disclosed in note 2(a), the annual financial statements of the Group are prepared in accordance with IFRSs as adopted by the European Union. The condensed consolidated financial statements in the half-year financial report have been prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting", as adopted by the European Union.

Our responsibility

Our responsibility is to express to the Group, a conclusion on the condensed consolidated financial statements in the half-year financial report based on our review.

Scope of review

We conducted our review in accordance with the International Standard on Review Engagements 2410, "Review of Interim Financial Information performed by the Independent Auditor of the Entity". A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Material Uncertainty related to Going Concern

We draw attention to Note 2(b) to the condensed consolidated financial statements which indicates that the Group incurred recurring losses after tax of US$7.9 million in the current period (30 June 2019: US$5.2 million) and has negative working capital of US$32.3 million (31 December 2018: US$17.5 million). These events and other 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. However, the Group's base case assumptions show that it will be able to operate within its contractual debt facility taking into consideration the Group's debt restructure agreement executed on 21 July 2020 as well as its costs reduction strategy and as such, have sufficient financial headroom for the 12 months from the date of approval of the 2020 Half-year financial report hence our review conclusion is not modified in respect of this matter.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated financial statements in the half-year financial report for the six months ended 30 June 2020 are not prepared in all material respects, in accordance with International Accounting Standard 34 "Interim Financial Reporting" as adopted by the European Union and the AIM Rules of the London Stock Exchange.

Use of our report

This report is made solely to the Group in accordance with International Standard on Review Engagements 2410 "Review of Interim Financial Information performed by the Independent Auditor of the Entity". Our work has been undertaken so that we might state to the Group those matters we are required to disclose in an independent review report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Group, for our review work, for this report, or for the conclusion we have formed.

Olufemi Abegunde FCA
FRC/2013/ICAN/00000004507
For: Deloitte & Touche
Chartered Accountants
Lagos, Nigeria

29 October 2020

Consolidated statement of profit or loss and other comprehensive income

For the six months ended 30 June 2020

	Notes	(Unaudited) 6 months to 30 June 2020 US$'000	(Unaudited) 6 months to 30 June 2019 US$'000
Revenue	6	**13,869**	22,290
Cost of sales	7	**(7,323)**	(8,155)
Gross profit		**6,546**	14,135
Operating expenses	8	**(3,592)**	(4,267)
Impairment loss	9	**(3,548)**	–
General and administrative expenses	10	**(8,439)**	(9,334)
Operating (loss)/profit		**(9,033)**	534
Finance income	11	**424**	58
Finance expense	11	**(1,471)**	(1,759)
Net finance expense		**(1,047)**	(1,701)
Loss profit before income tax		**(10,080)**	(1,167)
Income tax benefit/(expense)	12(d)	**2,156**	(4,016)
Loss for the period		**(7,924)**	(5,183)
Total comprehensive loss		**(7,924)**	(5,183)
Attributable to:			
Owners of the Company		**(7,420)**	(5,060)
Non-controlling interests		**(504)**	(123)
		(7,924)	(5,183)
Total comprehensive loss for the period		**(7,924)**	(5,183)
Loss per share:			
Basic loss per share ($)	13(c)	**(0.014)**	(0.009)
Diluted loss per share ($)	13(c)	**(0.014)**	(0.009)

The notes below are an integral part of these consolidated financial statements.

Condensed consolidated statement of financial position

	Notes	(Unaudited) 30 June 2020 US$'000	(Audited) 31 December 2019 US$'000
Non-current assets			
Property, plant and equipment	14	29,080	35,242
Exploration and evaluation assets	15	136,200	131,832
Intangible assets	16	2,418	2,869
Deferred tax assets	12(c)	16,267	13,580
Other assets	19	24,886	22,603
		208,851	206,126
Current assets			
Inventories	17	3,439	2,777
Trade receivables		–	–
Other receivables	18	3,703	4,283
Other assets	19	417	1,577
Cash and bank balances	20	4,630	2,733
		12,189	11,370
Total assets		221,040	217,496
Current liabilities			
Trade and other payables	21	30,537	20,563
Current tax payables	12(e)	1,463	1,126
Loans and borrowings	23	12,496	7,149
		44,496	28,838
Non-current liabilities			
Provision for Asset Retirement Obligation	22	2,111	2,265
Loans and borrowings	23	7,766	12,049
		9,877	14,314
Total liabilities		54,373	43,152
Net assets		166,667	174,344
Capital and reserves			
Share capital	24(a)	27	27
Share premium	24(b)	264,004	264,004
Accumulated deficit		(102,646)	(95,226)
Other reserves		22	22
Share based payment reserve		10,168	9,921
Equity attributable to owners of the Company		171,575	178,748
Non-controlling interests	25	(4,908)	(4,404)
Total equity		166,667	174,344

These consolidated financial statements were approved by the Board of Directors on 29 October 2020 and signed on its behalf by:

Olalekan Akinyanmi – Chief Executive Officer

The notes below are an integral part of these consolidated financial statements.

Condensed consolidated statement of changes in equity

In US$'000	Notes	Share capital	Share premium	Accumulated deficit	Other reserve	Share-based payments reserve	Total	Non-controlling interests	Total equity
Balance at 1 January 2019		27	264,004	(83,648)	22	8,849	189,254	(3,949)	185,305
Total comprehensive income for the year									
Loss profit for the year		–	–	(11,578)	–	–	(11,578)	(455)	(12,033)
Transactions with owners of the Company									
Share-based payment – personnel expenses	26	–	–	–	–	1,072	1,072	–	1,072
Balance at 1 January 2020		27	264,004	(95,226)	22	9,921	178,748	(4,404)	174,344
Total comprehensive loss for the period									
Loss for the period		–	–	(7,420)	–	–	(7,420)	(504)	(7,924)
Transactions with owners of the Company									
Share-based payment – personnel expenses	26	–	–	–	–	247	247	–	247
Balance at 30 June 2020		**27**	**264,004**	**(102,646)**	**22**	**10,168**	**171,575**	**(4,908)**	**166,667**

The notes below are an integral part of these consolidated financial statements.

Condensed consolidated statement of cash flows

For the six months ended 30 June

	Notes	(Unaudited) 6 months to 30 June 2020 US$'000	(Unaudited) 6 months to 30 June 2019 US$'000
Operating activities			
Loss for the period		**(7,924)**	(5,183)
Adjustments for:			
– Equity-settled share-based payment		**247**	582
– Revaluation adjustments for loans and borrowings		**–**	436
– Impairment loss	9	**3,548**	–
– Finance cost		**1,264**	1,491
– Deferred tax		**(2,687)**	2,584
– Depreciation and amortisation	14&16	**3,988**	5,673
Cash flows (used in)/ generated from operations before working capital adjustments		**(1,564)**	5,583
Changes in:			
Inventory		**(662)**	(1,584)
Trade and other payables		**7,744**	(2,370)
Other assets		**1,160**	(2,360)
Trade and other receivables		**580**	6,957
Income taxes		**531**	1,432
Cash generated from operations		**7,789**	7,658
Income taxes paid	12(e)	**(194)**	(2,531)
Net cash generated from operating activities		**7,595**	5,127
Investing activities			
Acquisition of property, plant and equipment	14	**(1,139)**	(906)
Optimum and Third party funded obligation		**(2,283)**	–
Recoveries from prepaid development costs		**–**	931
Acquisition of exploration and evaluation assets		**(2,138)**	(1,955)
Net cash used in investing activities		**(5,560)**	(1,930)
Financing activities			
Proceeds from issue of loan note and prepayment facility	23	**4,350**	–
Repayment of loan	23	**(3,400)**	(5,210)
Interest costs related to loan	23	**(1,088)**	(1,366)
Net cash used in financing activities**		**(138)**	(6,576)
Increase/ (decrease) in cash and bank balances		**1,897**	(3,379)
Cash and bank balances at 1 January	20	**2,733**	10,423
Cash and bank balances at end of period	20	**4,630**	7,044

**Changes in liabilities arising from financing activities have been disclosed in note 23 (f).

The notes below 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 c/o Walkers Corporate Limited, Cayman Corporate Centre, 27 Hospital Road, George Town, Grand Cayman KY1-9008, Cayman Islands. These unaudited condensed consolidated financial statements ("interim financial statements") as at and for the six months 30 June 2020 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

The annual financial statements of the Group are prepared in accordance with IFRSs as issued by the International Accounting Standards Board and as adopted by the European Union. These condensed consolidated financial statements have been prepared in accordance with IAS 34 Interim Financial Reporting as adopted by the European Union. They do not include all the information required for a complete set of IFRS financial statements. However, selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in the Group's financial position and performance since the last annual consolidated financial statements as at and for the year ended 31 December 2019. These condensed consolidated financial statements were authorised for issue by the Board of Directors on 29 October 2020.

The unaudited condensed consolidated financial statements comprise:

- Consolidated statement of profit or loss and other comprehensive income
- Consolidated statement of financial position
- Consolidated statement of changes in equity
- Consolidated statement of cash flows and
- Notes to the consolidated financial statements

(b) Material uncertainty related to Going concern basis of accounting

These interim financial statements have been prepared on the going concern basis of accounting, which assumes that 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. There is however a material uncertainty that can cast significant doubt on the Group's ability to continue as a going concern which is discussed below.

The Directors of the Group draw the users' attention to the recurring losses after tax of US$7.9 million incurred in the current period (30 June 2019: US$5.2 million). The Group also has a negative working capital position of US$32.3 million (31 December 2019: US$17.5 million) and this is an indicator of a possible liquidity concern.

In addition to the Group's current working capital deficiency, the Directors are cognisant of the potential impacts of COVID-19 on the Group as there are unprecedented market conditions with significant oil price volatility. The Group will not be able to meet its financial obligations if the price of crude oil should drop as low as US$25 per barrel. Considering there is no price hedging currently in place, we have concluded that there is a material uncertainty that may cast significant doubt on the Group's ability to continue as a going concern.

The Group closely monitors and carefully manages its liquidity risk. Cash forecasts are regularly produced, and sensitivities run for different scenarios including, but not limited to, changes in commodity prices and different production rates from the Group's producing asset. Cash forecasts have been updated in light of the oil price volatility seen in 2020, with base case run using a forward curve of US$35/bbl. for 2020 and US$40 for 2021, and a downside sensitivity run at US$30/bbl. for both 2020 and 2021.

The Group's base assumptions show that it will be able to operate within its contractual debt facility taking into consideration the Group's debt restructure agreement executed on 21 July 2020 as well as its costs reduction strategy and as such have sufficient financial headroom for the 12 months from the date of approval of the interim financial statements.

The Group continues to closely monitor cash flow forecasts and would take mitigating actions in advance including further reducing its operational costs; deferment of capital activities on OPL 310 and other capital projects until it has raised the required funds to execute them; to further renegotiate its debt obligation; and to raise additional funds if the need arise from either the equity or debt markets.

Notwithstanding the material uncertainty, the Directors' confidence in the Group's forecasts and the mitigating actions above, supports the preparation of the unaudited condensed consolidated financial statements on a going concern basis.

2. Basis of preparation

(c) Basis of measurement

These interim financial statements have been prepared on the historical cost basis except for financial instruments and share based payments which are measured at fair values.

(d) Functional and presentation currency

These interim 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

The judgements, estimates and assumptions applied in the preparation of these interim financial statements are consistent with those of the annual financial statements for the year ended 31 December 2019 except that in the current period, updated crude oil price forecast was used in determining the recoverable amount or value of Oil and Gas assets at period end 30 June 2020. Refer to Note 14.

3. Significant accounting policies

The accounting policies applied in these interim financial statements are consistent with those of the annual financial statements for the year ended 31 December 2019 except for amendments and interpretations of IFRS that became effective 1 January 2020 and which are stated in the table below:

Definition of Material – Amendments to IAS 1 and IAS 8	The IASB has made amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors which use a consistent definition of materiality throughout International Financial Reporting Standards and the Conceptual Framework for Financial Reporting, clarify when information is material and incorporate some of the guidance in IAS 1 about immaterial information.	This became effective on 1 January 2020 with no material or significant impact on the Group's operations.
Definition of a Business – Amendments to IFRS 3	The amended definition of a business requires an acquisition to include an input and a substantive process that together significantly contribute to the ability to create outputs.	This became effective on 1 January 2020 with no material or significant impact on the Group's operations.
Revised Conceptual Framework for Financial Reporting	Together with the revised Conceptual Framework, which became effective upon publication on 29 March 2018, the IASB has also issued Amendments to References to the Conceptual Framework in IFRS Standards. The document contains amendments to IFRS 2, IFRS 3, IFRS 6, IFRS 14, IAS 1, IAS 8, IAS 34, IAS 37, IAS 38, IFRIC 12, IFRIC 19, IFRIC 20, IFRIC 22, and SIC-32.	This became effective on 1 January 2020 with no material or significant impact on the Group's operations.
IFRS 16 amendment	On 28 May 2020, the IASB published COVID-19 Related Rent Concessions amending the standard to provide lessees with an exemption from assessing whether a COVID-19 related rent concession is a lease medication.	The amendment which became effective on 1 June 2020 has been adopted by the Group but does not has any significant impact on its operation
Interest Rate Benchmark Reform – Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16)	The changes in Interest Rate Benchmark Reform – Phase 2 relate to the modification of financial assets, financial liabilities and lease liabilities, specific hedge accounting requirements, and disclosure requirements applying IFRS 7 to accompany the amendments regarding modifications and hedge accounting.	The effective date of these amendments is 1 January 2021 and the Group has not elected to early adopt these amendments.

4. Segment information

The Group has a single class of business which is exploration, development and production of crude oil and natural gas. For management purposes, the Group is organised into geographical locations and has one reportable segment under IFRS 8 Operating Segment which is Nigeria. Other geographic locations include USA, Cayman Islands.

The Chief Executive Officer is considered the Chief Operating Decision Maker ("CODM") and monitors the operating results of these geographical locations for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on total profit or loss.

The accounting policies used by the Group in reporting segments internally are consistent with those of the annual financial statements for the year ended 31 December 2019.

The following is an analysis of the Group's revenue and results by reportable segment as at 30 June 2020. Profit/(loss) for the period represents total profit or loss for the period after taxation. This is the measure reported to the Group's CODM for the purpose of resource allocation and assessment of segment performance.

	Unaudited		
	Nigeria 30 June 2020 US$'000	**Others 30 June 2020 US$'000**	**Consolidated 30 June 2020 US$'000**
Revenue	**13,869**	**–**	**13,869**
Loss for the period	**(5,043)**	**(2,881)**	**(7,924)**

	Unaudited		
	Nigeria 30 June 2019 US$'000	Others 30 June 2019 US$'000	Consolidated 30 June 2019 US$'000
Revenue	22,290	–	22,290
Loss for the period	(658)	(4,525)	(5,183)

Other segment information

	Unaudited		
	Nigeria 30 June 2020 US$'000	**Others 30 June 2020 US$'000**	**Consolidated 30 June 2020 US$'000**
Finance income	**109**	**315**	**424**
Finance expense	**(1,471)**	**–**	**(1,471)**
Depreciation and amortisation	**(3,988)**	**–**	**(3,988)**
Income tax benefit	**2,156**	**–**	**2,156**

	Unaudited		
	Nigeria 30 June 2019 US$'000	Others 30 June 2019 US$'000	Consolidated 30 June 2019 US$'000
Finance income	58	–	58
Finance expense	(1,759)	–	(1,759)
Depreciation and amortisation	(5,673)	–	(5,673)
Income tax expense	(4,016)	–	(4,016)

Other segment information represents information included in the measure of segment profit or loss reviewed by the Group's CODM.

4. Segment information

Geographical information

The Group's revenue from external customer and information about non-current assets excluding financial instruments, deferred tax assets and other financial assets by geographical locations are detailed below:

	Unaudited	
Revenue	**30 June 2020 US$'000**	30 June 2019 US$'000
Nigeria	**13,869**	22,290
Others	**–**	–
	13,869	22,290

Non-current assets	**Unaudited 30 June 2020 US$'000**	Audited 31 December 2019 US$'000
Nigeria	**208,851**	206,126
Others	**–**	–
	208,851	206,126

Information about major customer

The Group has a single customer which contributes 100 percent of the Group's revenue in periods 30 June 2020 and 30 June 2019. The Group's revenue from this customer is disclosed in note 6.

5. 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 period was as follows:

	Unaudited	
	30 June 2020 US$'000	30 June 2019 US$'000
Total liabilities	**54,373**	31,273
Less: cash and bank balances	**(4,630)**	(7,044)
Net debt	**49,743**	24,229
Equity	**166,667**	180,704
Net debt to equity ratio	**0.30**	0.13

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

6. Revenue

	Unaudited	
	30 June 2020 US$'000	30 June 2019 US$'000
Crude proceeds (a)	**13,869**	22,290

(a) Crude proceeds of US$13.9 million represents the Group's share of crude oil sales from Otakikpo operation during the period, which is recognised as revenue ("equity crude"), (30 June 2019: US$22.3 million). The Group's equity crude was 408,800 barrels (30 June 2019: 362,077 barrels) out of which the Group lifted 384,936 barrels (30 June 2019: 345,746 barrels). The balance of 23,863 barrels (30 June 2019: 16,331 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.

	Unaudited			
	30 June 2020		30 June 2019	
	Barrels	**US$'000**	Barrels	US$'000
Equity crude	**408,800**	**13,869**	362,077	22,290

(b) The Group has a single customer Shell Western Supply and Trading Limited with whom it executed a crude off take agreement.

7. Costs of sales

	Unaudited	
	30 June 2020 US$'000	30 June 2019 US$'000
Depletion	**3,513**	4,652
Crude handling, evacuation and production operation costs	**3,010**	3,417
Royalty expenses	**1,462**	2,202
Change in crude inventory	**(662)**	(2,116)
	7,323	8,155

The Group implemented measures through vendor engagement for cost reduction which resulted in significant decrease in costs of sales.

8. Operating expenses

	Unaudited	
	30 June 2020 US$'000	30 June 2019 US$'000
Field support costs	**1,271**	2,761
Community, security expenses and others	**2,321**	1,506
	3,592	4,267

The implementation of COVID-19 palliatives for host communities and security reinforcement during the lock down period, resulted in significant increases in community and securities expenses. However, field support cost decreased significantly as a consequence of cost cutting measures initiated by the Group.

9. Impairment loss

	Unaudited	
	30 June 2020 US$'000	30 June 2019 US$'000
Property, plant and equipment	**3,485**	–
Intangible assets	**63**	–
Charge for the period	**3,548**	–

As at 30 June 2020, lower crude prices persisting as a result of the COVID-19 pandemic were identified as an impairment indicator. The Group performed an impairment test for its cash-generating unit (Otakikpo marginal field) and estimated its recoverable value using a discounted cash flow method. Based on the test results with net recoverable value of US$28.9 million as against initial assets carrying value of US$32.4 million, the Group has recorded an impairment loss of US$3.5 million.

A similar assessment was performed subsequent to 2019 financial year end which showed a potentially higher impairment loss of US$4.8 million using a discount rate of 15% and which is disclosed under the subsequent events note (i.e. note 35) of the 2019 financial statements. However, the slight improvement in crude price assumptions as disclosed in note 9 and further depletion charges on oil and gas assets in the current period led to a lower impairment loss recognised for the period.

The impairment loss was calculated by comparing the future discounted pre-tax cash flows expected to be derived from production of commercial reserves (the value-in-use) against the carrying value of the asset.

The net recoverable value of Otakikpo marginal field was determined based on the following assumptions:

- Cash-flows are based on internal model used for business plan and include future production, revenue, costs and capital expenditures
- Cash-flows are calculated for the period from 1 July 2020 to the end of license
- The discount rates are pre-tax and are calculated based on the weighted average cost of capital ("WACC") for LEKOIL Oil and Gas Investments Limited and market data. Directors have used two separate discount rates for different future periods (20.2% for cash flow projections up to 2021 and 18.9% for cash flow projections for the remainder of the asset's life) due to the sensitivity of the value-in-use to the difference in risks in these periods.
- The Company based its cash flow projections on the following price deck determined based on internal and external analysis:

Year	2021	2022	2023	2024	2025	2026
Average oil price	US$40.2	US$41.6	US$42.5	US$43.3	US$44.3	US$45.5

10. General and administrative expenses

	Unaudited	
	30 June 2020 US$'000	30 June 2019 US$'000
Personnel expenses	**3,972**	3,602
Depreciation and amortization (Notes 14 and 16)	**1,978**	1,021
Rent and facility management expenses	**443**	881
NDDC levy	**600**	357
Travel expenses	**257**	462
IT and telecommunication expenses	**247**	487
Legal and consultancy expenses	**170**	1,224
Non audit services	**58**	58
Other expenses	**714**	1,242
	8,439	9,334

11. Finance income and costs

	Unaudited 30 June 2020 US$'000	Unaudited 30 June 2019 US$'000
Finance income		
Other interest income (a)	**424**	58
	424	58
Finance costs		
Interest expense (c)	**1,202**	1,656
Accretion expense	**62**	–
Other finance fees	**186**	–
Net foreign exchange loss (b)	**21**	103
	1,471	1,759

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

(b) Net foreign exchange loss
Net foreign exchange loss represents exchange differences resulting from the conversion of US$ amounts to Nigerian Naira amounts, to meet obligations settled in Nigerian Naira and revaluation of Nigerian Naira balances to US$ at reporting periods.

(c) Interest expense
Interest expense consists largely of interest costs on third party loans during the period.

12. 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:

	Unaudited 30 June 2020 US$'000	Audited 31 December 2019 US$'000
Balance at beginning of period	**632**	2,889
Charge for the period	**451**	1,995
Tertiary education tax	**80**	392
Payment for the period	**(112)**	(4,644)
Balance at period end	**1,051**	632

(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 period is summarised below:

	Unaudited 30 June 2020 US$'000	Audited 31 December 2019 US$'000
Balance at beginning of period	**494**	2,235
Charge for the period	**–**	14
Tertiary education tax	**–**	1
Payment for the period	**(82)**	(1,756)
Balance at period end	**412**	494

12. Taxes continued

(c) Deferred tax assets

The Group has an estimated deferred tax asset of US$128.6 million (31 December 2019: US$114.0 million), out of which the Group has recognised deferred tax assets as at 30 June 2020 of US$16.3 million (31 December 2019: US$13.6 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. There is no expiration period to utilize the deferred tax assets. The balance of US$112.4 million (31 December 2019: US$100.6 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.

	Unaudited 30 June 2020 US$'000	Audited 31 December 2019 US$'000
Recognised deferred tax assets	**16,267**	13,580
Unrecognised deferred tax assets	**112,374**	100,440
	128,641	114,020

Deferred tax at period end relates to the following:

	Consolidated statement of financial position		Consolidated statement of profit or loss and other comprehensive income	
	Unaudited 30 June 2020 US$'000	Audited 31 December 2019 US$'000	**Unaudited 30 June 2020 US$'000**	Audited 31 December 2019 US$'000
Deferred tax liability				
Accumulated unrealised net exchange gain carried forward	**(3,939)**	(3,962)	**23**	(95)
	(3,939)	(3,962)		
Deferred tax assets				
Property, plant and equipment	**5,264**	6,084	**(820)**	(5,211)
Unutilised capital allowances	**14,505**	11,062	**3,443**	238
Provision for assets retirement obligation	**437**	396	**41**	352
	20,206	17,542		
Deferred tax benefit/(expense)			**2,687**	(4,716)
Deferred tax assets (net)	**16,267**	13,580		

(d) Total income tax charge recognised in the period.

	Unaudited	
	30 June 2020 US$'000	30 June 2019 US$'000
Petroleum profit tax	**(451)**	(1,193)
Company income tax	**–**	(239)
Tertiary education tax	**(80)**	–
Deferred tax benefit/ (expense) (note 12c)	**2,687**	(2,584)
	2,156	(4,016)

The Group had a net tax benefit in the current period compared to prior period due to increase in unutilised capital allowance as a result of low taxable income caused by the slump in crude oil prices attributable to COVID-19.

12. Taxes continued

(e) Current tax liabilities

	Unaudited 30 June 2020 US$'000	Audited 31 December 2019 US$'000
Balance at beginning of period	**1,126**	5,124
Charge for the period		
– Petroleum profit tax	**451**	1,995
– Company income tax	**–**	14
– Tertiary education tax	**80**	393
Payment during the period	**(194)**	(6,400)
Balance at period end	**1,463**	1,126

13. Loss per share

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

(i) Loss attributable to ordinary shareholders (basic)

	Unaudited	
	30 June 2020 US$'000	30 June 2019 US$'000
Loss for the period attributable to owners of the Company	**7,420**	5,060

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

	Unaudited	
	30 June 2020	30 June 2019
Issued ordinary shares	**536,529,983**	536,529,983
Weighted-average number of ordinary shares	**536,529,983**	536,529,983

(b) The calculation of diluted loss per share has been based on the following loss 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 attributable to ordinary shareholders (diluted)

	Unaudited	
	30 June 2020 US$'000	30 June 2019 US$'000
Loss for the period attributable to owners of the Company	**7,420**	5,060

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

	Unaudited	
	30 June 2020	30 June 2019
Issued ordinary shares	**536,529,983**	536,529,983
Weighted-average number of ordinary shares	**536,529,983**	536,529,983

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

	Unaudited	
	30 June 2020 US$'000	30 June 2019 US$'000
Loss for the period attributable to ordinary shareholders (US$'000)	**7,420**	5,060
Weighted-average number of ordinary shares ('000)	**536,530**	536,530
Basic/ diluted loss per ordinary share (US$)	**(0.014)**	(0.009)

14. 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 2019	51,937	296	433	813	283	1,199	54,961
Additions	3,132	196	3	3	28	–	3,362
Changes to provision for Asset Retirement Obligation (note 22)	(77)	–	–	–	–	–	(77)
Balance at 31 December 2019	54,992	492	436	816	311	1,199	58,246
Balance at 1 January 2020	54,992	492	436	816	311	1,199	58,246
Additions	1,077	–	–	62	–	–	1,139
Changes to provision for Asset Retirement Obligation (note 22)	(216)	–	–	–	–	–	(216)
Balance at 30 June 2020	**55,853**	**492**	**436**	**878**	**311**	**1,199**	**59,169**
Accumulated depreciation and impairment losses:							
Balance at 1 January 2019	14,220	245	330	675	99	956	16,525
Charge for the period	6,212	50	60	89	58	10	6,479
Balance at 31 December 2019	20,432	295	390	764	157	966	23,004
Balance at 1 January 2020	20,432	295	390	764	157	966	23,004
Charge for the period	3,513	32	21	17	12	5	3,600
Impairment loss (note 9)	3,485	–	–	–	–	–	3,485
Balance at 30 June 2020	**27,430**	**327**	**411**	**781**	**169**	**971**	**30,089**
Carrying amounts:							
At 31 December 2019	34,560	197	46	52	154	233	35,242
At 30 June 2020	**28,423**	**165**	**25**	**97**	**142**	**228**	**29,080**

The additions during the period consist largely of capital expenditure on production facilities in the Otakikpo marginal field.

15. 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:

	Unaudited 30 June 2020 US$'000	Audited 31 December 2019 US$'000
Balance at beginning of period	**131,832**	131,822
Additions during the period (b)	**4,368**	1,850
E&E adjustments	**–**	(1,840)
Derecognition of E&E expenditure of LEKOIL Exploration and Production (Pty) Limited	**–**	–
Other impairments	**–**	–
Balance at end of period	**136,200**	131,832

(b) The additions during the period consists largely of US$4.4 million E&E expenditure in OPL 310 including the Group's share of site survey on OPL 310. Total expenditure incurred on OPL 310 from inception of the farm-in agreement to 30 June 2020 amounts to US$119.9 million.

(c) OPL 310 was re-assessed for impairment by the Directors in the current period and it was concluded no impairment test was necessary. This was based upon management's assessment of the asset's value in use, its expectation that the Group will execute the planned work program during the license period and develop and bring the asset to commercial production.

16. 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 2019	7,000	1,787	104	8,891
Additions during the period	400	–	278	678
Balance at 1 January 2020	7,400	1,787	382	9,569
Additions during the period	–	–	–	–
Balance at 30 June 2020	**7,400**	**1,787**	**382**	**9,569**
Accumulated amortisation and impairment loss				
Balance at 1 January 2019	2,545	1,646	71	4,262
Charge for the period	2,256	141	41	2,438
Balance at 1 January 2020	4,801	1,787	112	6700
Charge for the period	342	–	46	388
Impairment loss (note 9)	63	–	–	63
Balance at 30 June 2020	**5,206**	**1,787**	**158**	**7,151**
Carrying amounts				
At 31 December 2019	2,599	–	270	2,869
At 30 June 2020	**2,194**	**–**	**224**	**2,418**

*Mineral rights acquisition costs represent the signature bonus for the Otakikpo marginal field amounting to US$7.0 million.

17. Inventories

Inventories consist of the Group's share of crude stock of US$3.4 million as at 30 June 2020 (31 December 2019: US$2.78 million).

18. Other receivables

Other receivables comprise:

	Unaudited 30 June 2020 US$'000	Audited 31 December 2019 US$'000
Cash call receivable from joint operating partner – GEIL (a)	**1,677**	2,367
Director's loan (b)	**1,815**	1,778
Employee loans and advances	**4**	2
Other receivables	**207**	136
	3,703	4,283

(a) The cash call 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.

Following the adoption of IFRS 9 in 2018, the Group recognised a total ECL provisions of US$0.05 million on the Director's loan balance.

19. Other assets

Other assets comprise:

	Unaudited 30 June 2020 US$'000	Audited 31 December 2019 US$'000
Non-current		
Optimum funded obligation (a)	**22,482**	20,137
OPL 310 Third party funded obligation (a)	**2,404**	2,466
	24,886	22,603
Current		
Restricted cash (b)	**279**	1,090
Prepaid rent	**138**	128
Prepaid insurance	**–**	317
Others	**–**	42
	417	1,577

(a) Further expenditure on geotechnical survey was made on behalf of Optimum and OPL 310 Third party during the period. All payments on behalf of Optimum are cost recoverable to the Group with a 50% uplift plus an additional compounding of 5 per cent per annum in respect of cost of capital to the Group. The Agreement (i.e. The Cost and Revenue Sharing Agreement) also provides the order of priority for cost recovery by the Group and Optimum.

(b) Restricted cash represents cash funding of the debt service reserve accounts for the FBN Capital Notes and restricted cash on BG MT Nox & Busy Snail.

20. Cash and bank balances

	Unaudited 30 June 2020 US$'000	Audited 31 December 2019 US$'000
Bank balances	**4,630**	2,733

21. Trade and other payables

	Unaudited 30 June 2020 US$'000	Audited 31 December 2019 US$'000
Accounts payable (a)	**14,589**	6,939
Accrued expenses	**11,281**	10,638
Other statutory deductions	**3,633**	2,443
Non-Government Royalties Payable	**700**	522
Other payables	**334**	21
	30,537	20,563

(a) Accounts payables represent obligations due vendors and outstanding cash calls. There were significant unpaid vendor and cash call obligations due to cash pressure from lower oil prices during the period resulting to the renegotiation of payment periods.

22. Provisions for asset retirement obligation

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

	Unaudited 30 June 2020 US$'000	Audited 31 December 2019 US$'000
Balance at beginning of period	**2,265**	1,808
Unwinding of discount	**62**	534
Effect of changes to decommissioning estimates (note 14)	**(216)**	(77)
Balance at the end of period	**2,111**	2,265

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 0.6% and discounted to present value at 7.3%. 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.

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.

Management estimates that the future decommissioning event will occur in 2026.

The Group revised its estimate in the current period due to change in inflation rate and discount rate.

23. Loans and borrowings

(a) US$10 million FBNC Dollar Facility

The Company entered into two-tranche facility for a US$10 million notes issuance agreement and a 2 billion Naira facility with FBN Capital in June 2016. Interest on the US$10 million notes issuance agreement was charged at 3-month LIBOR plus 11.25% per annum. The facility had maturity date of 30 June 2019.

In August 2018, the interest rate on US$10 million notes issuance facility was revised to 3-month LIBOR plus 10% per annum and the maturity extended to 30 June 2021 with principal repayment moratoriums for two quarters and equal quarterly principal repayments thereafter.

(b) US$8.55 million FBNM Dollar Facility

In June 2016, the Group drew down on the N2 billion Naira facility. The Naira facility was upsized by 2.5 billion Naira in September 2016.

In June 2018, the FBNC Naira facility plus the outstanding on the Sterling bank facility was re-denominated into a new US$8.55 million facility.

The US$8.55 million FBNM Dollar Facility has an interest rate of 3-month LIBOR plus 10% per annum and will mature in 30 June 2021 with a principal repayment moratorium for two quarters and equal quarterly principal repayments thereafter.

(c) USS$11.5 million FBNM facility

In October 2019, the Group signed an agreement for a new US$11.5 million debt facility with FBNQuest Merchant Bank ("FBNQuest") (the "Facility"). The Facility has a maturity of four years and is repayable quarterly with a margin of LIBOR + 10%. The proceed from the Facility was used to pay outstanding principal and interest due to Shell Western Supply and Trading Limited Advance Payment Facility and for the payment of the license/lease extension fees on OPL 310 of US$7.5 million.

23. Loans and borrowings continued

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

	Interest rate p.a.	**Unaudited 30 June 2020 US$'000**	Audited 31 December 2019 US$'000
US$10 million FBNC Dollar Facility	10% + LIBOR	**1,969**	2,957
US$8.55 million FBNM Dollar Facility	10% + LIBOR	**3,536**	5,236
US$11.5 million FBNM Facility	10% + LIBOR	**10,406**	11,005
Working capital facility		**850**	–
Shell Western advance payment		**3,501**	–
Total		**20,262**	19,198
Analysis of borrowing			
Current		**12,496**	7,149
Non-current		**7,766**	12,049
		20,262	19,198

The movement in the loan account was as follows:

	Unaudited 30 June 2020 US$'000	Audited 31 December 2019 US$'000
Balance at beginning of period	**19,198**	20,485
Draw-down during the period (d)	**4,350**	11,500
Effective interest during the period	**1,202**	2,929
Principal repayment during the period	**(3,400)**	(12,614)
Interest paid during the period	**(1,088)**	(3,230)
Fees paid during the period	**–**	(307)
Revaluation adjustments	**–**	435
Balance at end of period	**20,262**	19,198

(d) During the period, the Group accessed advance payment from Shell Western Supply and Trading Limited ("Shell Western") of US$3.5 million against future crude lifting. Shell Western will recover the advance payment through future crude lifting up to 30 November 2020. In addition, the Group obtained US$0.85 million in working capital facility to augment working capital deficiency in June 2020 from First Bank of Nigeria Plc. The facility was repaid in July 2020.

(e) Subsequent to period end, the Group executed a Restructuring Offer Letter with its existing lenders, FBNQuest Merchant Bank ("FBNQuest") to restructure and consolidate all existing secured interest-bearing term loans with FBNQuest under the following terms:

- An extension of loan tenor with new term loan maturity date of 31 March 2024. This represents an increase on the average maturity of the three existing bank loans by 15 months.
- Interest will be paid quarterly in arrears with the pricing remaining at LIBOR + 10.0%.
- Sculpted quarterly term loan principal repayment delivering a cash saving as compared to the previous loan structures of over US$3.0 million over the next 15 months.

23. Loans and borrowings continued

(f) Changes in liabilities arising from financing activities:

	Cash changes				Non-cash changes	
	1 January 2020 US$'000	Draw-down US$'000	Principal repayment US$'000	Interest and fees paid US$'000	Effective interest US$'000	**30 June 2020 US$'000**
Loans and borrowings	19,198	4,350	(3,400)	(1,088)	1,202	**20,262**
Total liabilities from financing activities	19,198	4,350	(3,400)	(1,088)	1,202	**20,262**

24. Capital and reserves

(a) Share capital

	Unaudited 30 June 2020 US$'000	Audited 31 December 2019 US$'000
Authorised	**50**	50
Issued, called up and fully paid	**27**	27
Total issued and called up share capital	**27**	27

	Number of shares 2020	Number of shares 2019
Authorised – par value US$0.00005	**1,000,000,000**	1,000,000,000
Issued, called up and fully paid – par value US$0.00005	**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.

	Unaudited 30 June 2020 US$'000	Audited 31 December 2019 US$'000
Share premium	**264,004**	264,004

25. Non-controlling interest

	Unaudited		Audited
	% of ownership	**30 June 2020 US$'000**	31 December 2019 US$'000
LEKOIL Nigeria Limited	10	**4,562**	4,058
LEKOIL Exploration and Production (Pty) Limited	20	**346**	346
		4,908	4,404

26. Share-based payment arrangements

There have been no material changes in the share-based payment arrangements described in the 2019 annual financial statements of the Group.

27. Related party transactions

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

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 and transactions with 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.

At 30 June 2020, the balance outstanding was US$1,814,859 net of ECL provision (31 December 2019: US$1,778,373) and is included in 'Other receivables'. Interest income from the loan during the period amounted to US$36,486 (31 December 2019: US$ 70,000).

The outstanding balance of US$0.03 million due to SOWSCO Wells Services Nigeria Limited on 31 December 2019 was settled in the current period.

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

28. Financial commitments and contingencies

(a) 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; and
- The joint operation will allocate the sum of US$0.53 million (NGN 90 million) annually for sustainable community development activities.

(b) 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.

(c) In June 2018, the Company issued a corporate guarantee for the re-denomination of existing term loan facility of NGN2.3 billion availed to LEKOIL Oil and Gas Investments Limited plus the refinancing of Sterling bank facility to an US$8.5 million term loan facility for funding Otakikpo operations.

(d) Based on Cost and Revenue Sharing Agreement signed in August 2019, the Group has the following financial commitments on OPL 310 as at year end.

1. The Group is bound to pay (a) 42.85 per cent of US$10m payable to the Nigerian Government on conversion of OPL 310 to an OML and (b) 42.85 per cent of US$10m to the Nigerian Government on reaching First Oil. The balance of the two US$10m payments will be made by the potential Funding Partner.
2. The Group is bound to pay Optimum certain production prepayments from the proceeds of a continuous sale of crude oil produced from Ogo, such amounts being subject to 2P reserves or aggressive production milestones being achieved. The payments, once due, include a US$10m per year payment for five years following completion of a successful well (being a well capable of producing 5,000 BBL/d of Crude Oil).

In addition, the Group will, subject to securing funding, cover 42.85 per cent of the capital expenditures and operating expenses of the Block to First Oil, being its 17.14 per cent pro rata of an aggregate 40 per cent participating interest held by it and the potential Funding Partner. The potential Funding Partner will cover the remaining 57.15 per cent of the capital expenditures.

(e) Litigation and claims
There have been no material changes to litigations and claims involving the Group as described in the 2019 annual financial statements of the Group.

29. Financial risk management and financial instruments

(a) Fair values

Fair values vs. carry amounts

Set out below is a comparison by class of the carrying amounts and fair value of the Group's financial instruments other than those whose carrying amounts are a reasonable approximation of fair value.

	Note	Carrying amount		Fair value	
		Unaudited 30 June 2020 US$'000	Audited 31 December 2019 US$'000	**Unaudited Level 2 30 June 2020 US$'000**	Audited Level 2 31 December 2019 US$'000
Financial liabilities measured at amortised costs					
Loans and borrowings	22	**20,262**	19,198	**20,262**	19,198
		20,262	19,198	**20,262**	19,198

Management assess that the fair values of cash and short term trade receivables, other receivables, trade payables and other current liabilities approximate their carrying amounts largely due to the short-term maturities of these instruments.

The fair value of loans and borrowings classified as level 2 was calculated using the discounted cash flow method. 3-month LIBOR rate plus 10% was used for discounting future cash flows. However, the carrying amount and the fair value of loans and borrowings are the same because the rate of interest on loans and borrowings is not different from the market rate.

30. Qatar Investment Authority (QIA) loan

There have been no material changes in the disclosures made in the 2019 annual financial statements of the Group in respect of QIA loan.

31. Events after the reporting date

(a) The Group subsequent to period end executed a Restructuring Offer Letter with its existing lenders, FBNQuest Merchant Bank ("FBNQuest") to restructure and consolidate all existing secured interest-bearing term loans with FBNQuest under the following terms:

- An extension of loan tenor with new term loan maturity date of 31 March 2024. This represents an increase on the average maturity of the three existing bank loans by 15 months.
- Interest will be paid quarterly in arrears with the pricing remaining at LIBOR + 10.0%.
- Sculpted quarterly term loan principal repayment delivering a cash saving as compared to the previous loan structures of over US$3.0 million over the next 15 months.

There were no other subsequent events that could have had material effect on the state of affairs of the Group as at 30 June 2020 and on the profit or loss for the period ended on that date, which have not been considered in the preparation of these financial statements.

Company information

Financial calendar

Announcements

- Full year results for 2020 are expected in June 2021.
- Half-year results for 2021 are expected in September 2021.

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

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