LEKOIL OIL AND GAS INVESTMENTS LIMITED

Annual report and financial statements
For the year ended 31 December 2020

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Corporate information

Registration number: RC. 1125297

Directors:	Aisha Muhammed-Oyebode	Nigerian
	Olalekan Akinyanmi	Nigerian
Registered Office:	16 Idowu Martins, Victoria Island Lagos	
Company Secretary and Solicitor:	Gloria Iroegbunam 16 Idowu Martins, Victoria Island Lagos	
Auditors:	Deloitte & Touche Civic Towers Plot GA 1 Ozumba Mbadiwe Avenue Victoria Island Lagos	
Principal Bankers:	First Bank of Nigeria Limited 35 Marina Lagos	
	FBN Merchant Bank Limited 10 Keffi Street Off Awolowo Road Ikoyi Lagos	
	Sterling Bank Plc 20, Marina Lagos Island Lagos	

Directors' report

The Directors present their annual report on the affairs of Lekoil Oil and Gas Investments Limited ("the Company"), together with the financial statements and auditor's report for the year ended 31 December 2020.

Legal form

The Company was incorporated in Nigeria as a private limited liability company on 1 July 2013. The Company is a wholly owned subsidiary of Lekoil Nigeria Limited.

Principal activity and business review

The principal activity of the Company is the exploration, development and production of oil and gas derived from its 40 percent participating interest in Otakikpo Marginal Field located within OML 11.

Operating results

The following is a summary of the Company's operating results:

	2020 NGN'000	2019 NGN'000	2020 US$'000	2019 US$'000
Revenue	12,468,599	15,186,036	32,923	42,027
(Loss)/ profit before taxation	(667,682)	3,823,338	(1,763)	10,581
Profit after taxation	320,020	1,251,320	845	3,463

No dividend has been recommended by the Directors for the year (2019: Nil).

Directors and their interests

The Directors who served during the year are as follows:

Name	Designation	Nationality
Olalekan Akinyanmi	Chief Executive Officer	Nigerian
Aisha Muhammed-Oyebode	Non-Executive Director	Nigerian

The interests of the Directors in the issued share capital of the Company as recorded in the register of members and as notified by them for the purpose of Section 301 of the Companies and Allied Matters Act, 2020 are as follows:

	Ordinary Shares of ₦1 each
Mr. Olalekan Akinyanmi	1
	1

In accordance with Section 303 of the Companies and Allied Matters Act, 2020, none of the Directors has notified the Company of any declarable interests in contracts with the Company.

Directors' report (Cont'd)

Shareholding structure
The shareholding structure of the Company is as follows:

Shareholder	**Number of Ordinary Shares of ₦1 each**
Lekoil Nigeria Limited	2,499,999
Olalekan Akinyanmi	1
	2,500,000

Property, plant and equipment (PPE)
Information relating to property, plant and equipment is disclosed in Note 15 to the financial statements.

Charitable donations
No contributions or donations were made to charitable organizations during the year (2019: Nil). In compliance with Section 43(2) of the Companies and Allied Matters Act, 2020, the Company did not make any donations or gifts to any political party, political association or for any political purpose in the course of the year (2019: Nil).

Events after the reporting date
All events that have occurred since the year end which require reporting have been disclosed in the financial statements (see note 28).

Employment and employees

(a) **Employee consultation and training**
The Company is committed to keeping employees fully informed as far as possible regarding the Company's performance and progress and seek their views wherever practicable on matters which particularly affect them as employees. This is achieved through regular and informal meetings between management and staff.

Trainings are carried out at various levels through both in-house and external courses.

(b) **Employment of physically challenged persons**
The Company has no physically challenged persons in its employment. However, applications for employment by physically challenged persons are always fully considered, bearing in mind the respective aptitudes and abilities of the applicants concerned. In the event of members of staff becoming physically challenged, every effort will be made to ensure that their employment with the Company continues and that appropriate training is arranged. It is the policy of the Company that training, career development and promotion of physically challenged persons should, as far as possible, be identical with that of other employees.

Directors' report (Cont'd)

(c) **Employee Health, Safety and Welfare at work**

The Company enforces strict health and safety rules and practices within the work environment. These are reviewed and tested regularly.

Fire prevention and fire-fighting equipment are installed in strategic locations within the Company's premises.

The Directors maintain regular communication and consultation with the employees on matters affecting employees and the Company. There is great emphasis on staff development and training through carefully planned training courses and seminars to update the special skills and job requirements of the staff.

Auditors

In accordance with section 401(2) of the Companies and Allied Matters Act, 2020, the auditors, Deloitte & Touche have expressed their willingness to continue in office as auditors of the Company. A resolution will be passed at the next Annual General Meeting (AGM) to authorize Directors to determine their remuneration.

BY ORDER OF THE BOARD

Gloria Iroegbunam
Company Secretary
Lagos, Nigeria
9 August 2021

Statement of Directors' responsibilities

In relation to the financial statements

The Directors of Lekoil Oil and Gas Investments Limited ("The Company") accept responsibility for the preparation of the financial statements that give a true and fair view of the financial position of the Company as at 31 December 2020 and the results of its operations, cash flows and changes in equity for the year then ended, in compliance with International Financial Reporting Standards ("IFRS") and in the manner required by the Companies and Allied Matters Act of Nigeria, and the Financial Reporting Council of Nigeria Act, 2011.

In preparing the financial statements, the Directors are responsible for:

- properly selecting and applying accounting policies;
- presenting information, including accounting policies, in a manner that provides relevant, reliable, comparable, and understandable information.
- providing additional disclosures when compliance with the specific requirements in IFRS are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Company's financial position and financial performance.

Going concern

The Directors have made an assessment of the Company's ability to continue as a going concern and have no reason to believe the Company will not remain a going concern in the year ahead.

Certification of financial statements

In accordance with section 405 of the Companies and Allied Act of Nigeria, the Chief Executive Officer and the Chief Financial Officer certify that the financial statements have been reviewed and based on our knowledge, the

(i) audited financial statements do not contain any untrue statement of material fact or omit to state a material fact, which would make the statements misleading, in the light of the circumstances under which such statement was made, and
(ii) audited financial statements and all other financial information included in the statements fairly present, in all material respects, the financial condition and results of operation of the company as of and for, the periods covered by the audited financial statements;

We state that management and directors:

(i) are responsible for establishing and maintaining internal controls and have designed such internal controls to ensure that material information relating to the Company is made known to the officer by other officers of the company , particularly during the period in which the audited financial statement report is being prepared,
(ii) have evaluated the effectiveness of the company's internal controls within 90 days prior to the date of its audited financial statements, and
(iii) certify that company's internal controls are effective as of that date;

Statement of Directors' responsibilities (cont'd)

We have disclosed:

(i) all significant deficiencies in the design or operation of internal controls which could adversely affect the company's ability to record, process, summarise and report financial data, and have identified for the company's auditors any material weaknesses in internal controls, and

(ii) whether or not, there is any fraud that involves management or other employees who have a significant role in the company's internal control; and

(iii) as indicated in the report, whether or not, there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of their evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

The financial statements of the Company for the year ended 31 December 2020 were approved by Directors on 9 August **2021**

Olalekan Akinyanmi	**Edward During**	**Aisha Muhammed-Oyebode**
Chief Executive Officer	**Chief Financial Officer**	**Non-Executive Director**

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Lagos
Nigeria

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Independent Auditors' Report

To the Shareholders of Lekoil Oil and Gas Investments Limited

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of **Lekoil Oil and Gas Investments Limited ("The Company")** set out on pages 4 to 55, which comprise the statement of financial position as at 31 December 2020, the statement of profit or loss and other comprehensive income, statement of changes in equity, statement of cash flows for the year then ended and the notes to the financial statements including a summary of significant accounting policies.

In our opinion, the financial statements give a true and fair view of the financial position of **Lekoil Oil and Gas Investments Limited** as at 31 December 2020 and the financial performance and cash flows for the year then ended in accordance with the International Financial Reporting Standards, Financial Reporting Council of Nigeria Act 2011 and the Companies and Allied Matters Act 2020.

Basis of Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the requirements of the International Ethics Standards Board for Accountants' (IESBA) International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA code) and other independence requirements applicable to performing audits of financial statements in Nigeria. We have fulfilled our other ethical responsibilities in accordance with the IESBA Code and other ethical requirements that are relevant to our audit of Financial Statements in Nigeria.

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 financial statements which indicates that the Company had a working capital deficit of ₦9.3 billion (US$24.2 million) as at 31 December 2020 (2019: ₦9.7 billion (US$26.7 million)). This event and other conditions as set forth in Note 2(b), indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. The Going concern of the Company is therefore primarily dependent on continued ability of the Company to negotiate the deferral or spread of a significant portion of its current liabilities as at year end which includes the amount due to its joint operating partner and its parent company. Our opinion is not modified in respect of this matter.

Other Information

The Directors are responsible for the other information in the financial statements. The other information comprises the Directors' Report, which we obtained prior to the date of this auditors' report. The other information does not include the financial statements and our auditors' report thereon.

Our opinion on the 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 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.

Deloitte.

Responsibilities of the Directors for the Financial Statements
The Directors are responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards, the requirements of the Companies and Allied Matters Act, the Financial Reporting Council Act, 2011 and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to these 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 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 Company'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 Company'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 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 Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure, and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance 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.

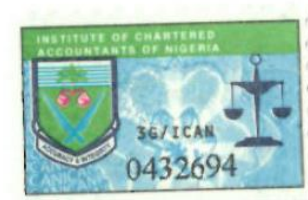
Report on Other Legal and Regulatory Requirements
In accordance with the Fifth Schedule of the Companies and Allied Matters Act, we expressly state that:

- We have obtained all the information and explanation which to the best of our knowledge and belief were necessary for the purpose of our audit.

- The Company has kept proper books of account, so far as appears from our examination of those books.

- The Company's financial position and its statement of profit or loss and other comprehensive income are in agreement with the books of account and returns.

Olufemi Abegunde, FCA
(FRC/2013/ICAN/00000004507)
For: Deloitte and Touche
Chartered Accountants
Lagos, Nigeria
9 August 2021



Statements of profit or loss and other comprehensive income

	Notes	2020 NGN'000	2019 NGN'000	2020 US$'000	2019 US$'000
Revenue	7	12,468,599	15,186,036	32,923	42,027
Cost of sales	8	(7,437,682)	(5,106,818)	(19,639)	(14,133)
Gross profit		5,030,917	10,079,218	13,284	27,894
Operating expenses	9	(2,213,239)	(2,794,604)	(5,844)	(7,734)
Impairment loss	10	(1,499,352)	-	(3,959	-
General and administrative expenses	11	(1,237,278)	(2,022,059)	(3,267)	(5,596)
Operating profit		81,048	5,262,555	214	14,564
Finance income	12	1,515	17,344	4	48
Other income	12	221,551	42,277	585	117
Finance costs	12	(971,796)	(1,498,838)	(2,566)	(4,148)
Net finance and other income		(748,730)	(1,439,217)	(1,977)	(3,983)
(Loss)/ profit before income tax	13	(667,682)	3,823,338	(1,763)	10,581
Income tax benefit/ (expense)	14(d)	987,702	(2,572,018)	2,608	(7,118)
Profit for the year		320,020	1,251,320	845	3,463
Other comprehensive income for the year, net of income tax					
Items that may be reclassified subsequently to profit or loss:					
Translation difference		266,637	(20,620)	-	-
Total comprehensive (loss)/ income		586,657	1,230,700	845	3,463

The notes on pages 7 to 55 are an integral part of these financial statements.

Statement of financial position

	Notes	2020 NG N'00 0	2019 NG N'00 0	2020 US$'000	2019 US$'000
Non-current assets					
Property, plant and equipment	15	10,930,983	13,308,118	28,418	36,708
Intangible assets	16	669,291	942,241	1,740	2,599
Deferred tax assets	14(c)	6,714,451	4,923,293	17,456	13,580
		18,314,725	19,173,652	47,614	52,887
Current assets					
Inventories	17	385,419	1,006,774	1,002	2,777
Trade receivables	18	435,808	-	1,133	-
Other receivables	19	5,206,241	4,522,687	13,535	12,475
Other assets	20	658,904	398,068	1,713	1,098
Cash and bank balance	22	1,078,174	269,730	2,803	744
		7,764,546	6,197,259	20,186	17,094
Total assets		26,079,271	25,370,911	67,800	69,981
Current liabilities					
Trade and other payables	24	13,993,182	12,891,559	36,379	35,559
Current tax payables	14(e)	846,230	408,220	2,200	1,126
Loans and borrowings	26	2,230,970	2,591,798	5,800	7,149
		17,070,382	15,891,577	44,379	43,834
Non-current liabilities					
Provision for asset retirement obligation	25	919,314	821,153	2,390	2,265
Loans and borrowings	26	3,212,981	4,368,244	8,353	12,049
		4,132,295	5,189,397	10,743	14,314
Total liabilities		21,202,677	21,080,974	55,122	58,148
Net assets		4,876,594	4,289,937	12,678	11,833
Capital and reserves					
Share capital	23	2,500	2,500	16	16
Retained earnings		6,199,023	5,879,003	12,662	11,817
Translation reserve	23	(1,324,929)	(1,591,566)	-	-
Total equity		4,876,594	4,289,937	12,678	11,833

These financial statements were approved by the Board of Directors on 9 August 2021 and signed on its behalf by:

Olalekan Akinyanmi
Chief Executive Officer

Aisha Muhammed-Oyebode
Non-Executive Director

The notes on pages 7 to 55 are an integral part of these financial statements.

Statement of changes in equity

	Notes	Share capital NGN'000	Retained earnings NGN'000	Translation reserve NGN'000	Total NGN'000
At 1 January 2019		2,500	4,627,683	(1,570,946)	3,059,237
Total comprehensive income for the year:					
Profit for the year		-	1,251,320	-	1,251,320
Other comprehensive income for the year		-	-	(20,620)	(20,620)
At 1 January 2020		2,500	5,879,003	(1,591,566)	4,289,937
Total comprehensive income for the year:					
Profit for the year		-	320,020	-	320,020
Other comprehensive income for the year		-	-	266,637	230,908
At 31 December 2020		2,500	6,199,023	(1,324,929)	4,876,594

	Notes	Share capital US$'000	Retained earnings US$'000	Total equity US$'000
At 1 January 2019		16	8,354	8,370
Total comprehensive income for the year:				
Profit for the year		-	3,463	3,463
At 1 January 2020		16	11,817	11,833
Total comprehensive income for the year:				
Profit for the year		-	845	845
At 31 December 2020		16	12,662	12,678

The notes on pages 7 to 55 are an integral part of these financial statements

Statement of cash flows

	Notes	2020 NGN'000	2019 NGN'000	2020 US$'000	2019 US$'000
Operating activities					
Profit for the year		320,020	1,251,320	845	3,463
Adjustments to reconcile profit to net cash generated from operating activities:					
- Translation effects on property plant and equipment		(762,454)	121,312	-	-
- Translation effects on intangible assets		(52,371)	15,415	-	-
- Translation effects on loans and borrowings		394,551	(136,618)	-	-
- Translation effects on pre-paid development costs		-	3,873	-	-
- Translation effects on provision for assets retirement obligation		50,821	(4,804)	-	-
- Translation effects on deferred tax assets	14(c)	(323,239)	59,816	-	-
- Translation effects on current tax payables		31,265	(19,965)	-	-
- Translation difference		266,637	(20,620)	-	-
- Impairment loss		1,499,352	-	3,959	-
- Finance cost		825,610	1,498,838	2,180	4,148
- Revaluation adjustments	26	-	170,191	-	471
- Deferred tax		(1,467,918)	1,704,079	(3,876)	4,716
- Income tax		480,217	867,939	1,268	2,402
- Depreciation and amortization	15&16	2,801,013	3,099,936	7,396	8,579
Cash flow generated from operation before working capital adjustments		4,063,504	8,610,712	11,772	23,779
Changes in:					
Inventory		621,355	(407,719)	1,775	(1,138)
Trade and other payables		1,101,623	(23,587,534)	820	(64,247)
Other assets		5,593	12,086	15	33
Trade and other receivables		(1,119,362)	23,012,256	(2,193)	62,860
Cash generated from operation		4,672,713	7,639,801	12,189	21,287
Income taxes paid		(73,472)	(2,312,576)	(194)	(6,400)
Net cash generated from operating activities		4,599,241	5,327,225	11,995	14,887
Investing activities					
Acquisition of property, plant and equipment	15	(835,456)	(1,213,381)	(2,206)	(3,358)
Recoveries from pre-paid development costs	21	-	336,408	-	931
Acquisition of intangible assets	16	-	(144,536)	-	(400)
Net cash (used in)/generated from investing activities		(835,456)	(1,021,509)	(2,206)	(2,827)
Financing activities					
Other third parties loan draw down	26	1,647,432	4,155,410	4,350	11,500
Repayment of loan due to related party	26	-	(3,678,441)	-	(10,276)
Repayment of loan due to others	26	(3,464,530)	(4,557,943)	(9,148)	(12,614)
Interest and transaction costs related to loan	26	(871,814)	(1,278,060)	(2,302)	(3,537)
Net cash (used in)/generated from financing activities*		(2,688,912)	(5,359,034)	(7,100)	(14,927)
(Decrease)/increase in cash and bank balances		1,074,873	(1,053,318)	2,689	(2,867)
Restricted cash	20	(266,429)	762,005	(630)	2,076
Cash and bank balances at 1 January		269,730	561,043	744	1,535
Cash and bank balances at 31 December	22	1,078,174	269,730	2,803	744

*Changes in liabilities arising from financing activities have been disclosed in note 26(e).

The notes on pages 7 to 55 are an integral part of these financial statements

Notes to the financial statements

1.1 Reporting entity

Lekoil Oil and Gas Investments Limited ("the Company") was incorporated on 1 July 2013 under the Companies and Allied Matters Act as a limited liability company. The Company's principal activity is the exploration and production of oil and gas in Nigeria.

1.2 Composition of financial statements

The financial statements are drawn up in Nigerian Naira and US Dollars being the presentation currency and functional currency of Lekoil Oil and Gas Investments Limited in accordance with International Financial Reporting Standards (IFRS). The conversion from US Dollars to Nigeria Naira has been performed using Oanda closing and average exchange rates of ₦384.65 and ₦378.72 respectively.

The financial statements comprise:

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

The Directors also provided the following additional statements in compliance with the Companies and Allied Matters Act:

- Value added statement; and
- Five-year financial summary

1.3 Financial period

These financial statements cover the period from 1 January 2020 to 31 December 2020 with comparative figures for the year 1 January 2019 to 31 December 2019.

2 Basis of preparation

(a) Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standard Board (ÏASB).

Several new standards, amendments to standards and interpretations effective for annual periods beginning on or after 1 January 2021, have not been applied in preparing these financial statements. The revised and new accounting standards and interpretations issued but not yet effective for accounting year beginning on or after 1 January 2020 are set out in Note 5.

(b) Material uncertainty related to going concern

These financial statements have been prepared on the going concern basis of accounting, which assumes that the Company will continue in operation for the foreseeable future and be able to realize 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 Company's ability to continue as a going concern which is discussed below.

Notes to the financial statements

2 Basis of preparation (Cont'd)

(b) Material uncertainty related to going concern (cont'd)

The Directors of the Company draw the users' attention to the Company's negative working deficiency of N9.3 billion/US$24.2million in the current year (2019: N9.7 billion/US$26.7 million) which is an indicator of a possible liquidity concern.

The Company 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 Company's producing asset.

The Company continues to closely monitor cash flow forecasts and would take mitigating actions in advance including further reducing its operational costs, deferment of capital projects until it has raised the required funds to execute them; further renegotiate its debt obligation; and to raise additional funds if the need arise.

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

In addition, Lekoil Nigeria Limited has pledge that it will not request the Company to repay the outstanding payable amount of ₦2.6 billion (US$6.9 million) due to it until such a time in which the company will be able to make such repayment.

(c) Basis of measurement

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

(d) Functional and presentation currency

These financial statements are presented in both Nigerian Naira and US Dollars. All amounts have been rounded to the nearest thousands ('000), unless otherwise indicated.

(e) Use of estimates and judgments

The preparation of these financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.
Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized prospectively.

(i) Judgments

Information about judgments made in applying accounting policies that have the most significant effects on the amounts recognised in the financial statements is included in the following note:

- Note 2(b) – Going concern basis of accounting

- Note 15 – Impairment of oil and gas assets

Notes to the financial statements

2 Basis of preparation (Cont'd)

(e) Use of estimates and judgments (cont'd)

(i) Judgments (cont'd)

- Determination of joint control and classification of a joint arrangement:
  Judgment is required to determine when the Company has joint control over an arrangement, which requires an assessment of the relevant activities and when the decisions in relation to those activities require unanimous consent. The Company has determined that the relevant activities for its joint arrangements are those relating to the operating and capital decisions of the arrangement, including the approval of the annual capital and operating expenditure work programme and budget for the joint arrangement.

- Determination of joint control and classification of a joint arrangement (cont'd)
  Judgment is also required to classify a joint arrangement. Classifying the arrangement requires the Company to assess their rights and obligations arising from the arrangement. Specifically, the Company considers:

  - The structure of the joint arrangement – whether it is structured through a separate vehicle

  - When the arrangement is structured through a separate vehicle, the Company also considers the rights and obligations arising from:
    - The legal form of the separate vehicle.
    - The terms of the contractual arrangement, and
    - Other facts and circumstances, considered on a case by case basis

(ii) Assumptions and estimation uncertainties

Information about assumptions and estimation uncertainties that have a higher risk of resulting in a material adjustment to the carrying amounts of assets and liabilities in the year ending 31 December 2020 is included in the following notes:

Note 2(b) – Going concern. Key assumptions made, and judgment exercised by the Directors in preparing the Company's cash flow forecast.

Note 14(c) – Recognised deferred tax assets. The availability of future taxable profit to offset the recognised deferred tax assets.

Note 15 – Impairment of oil and gas assets

Note 25- Provisions for asset retirement obligation. Key assumptions underlying the asset retirement obligation as at year end.

Notes to the financial statements

3 Significant accounting policies

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

(a) Interests in joint operation

A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

When an entity undertakes its activities under joint operation, the entity as a joint operator recognises in relation to its interest in a joint operation:

- its assets, including its share of any assets held jointly;
- its liabilities, including its share of any liabilities incurred jointly;
- its revenue from sale of its share of the output arising from the joint operation;
- its share of the revenue from the sale of the output by the joint operation; and
- its expenses, including its share of any expenses incurred jointly.

The Company accounts for the assets, liabilities, revenue and expenses relating to its interest in a joint operation in accordance with the IFRS standards applicable to the particular assets, liabilities, revenue and expenses.

The Company has interest in the following joint operation:

- **Otakikpo marginal field**

  The Otakikpo marginal field lies in a coastal swamp location in OML 11, adjacent to the shoreline in the south-eastern part of the Niger Delta.

  The Company farmed-in to Otakikpo in May 2014 for the acquisition of 40% participating interest from Green Energy International Limited ("GEIL"), the operator of the field. The consideration paid to GEIL for the acquisition of the interest comprised a signature bonus of US$7 million and a production bonus of US$4 million. Commercial production commenced in February 2017 and the asset has been producing steadily to date.

(b) Foreign currency

(i) Foreign currency transactions

The US dollar is the functional currency of the Company.
Transactions in foreign currencies are translated into the Company's functional currency at rates of exchange ruling at the transaction dates.

Monetary assets and liabilities denominated in foreign currencies are translated to the functional currency at the exchange rate ruling at the reporting 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.

Notes to the financial statements

3 Significant accounting policies

(c) Revenue

(i) Sale of crude

Revenue represents sales value of Company's share of liftings in the year. Revenue is recognised when or as the Company 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 a customer and the customer taking physical possession.

When, or as a performance obligation is satisfied, the Company 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 Company 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 a joint operation is 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 basis.

In respect of redeterminations, any adjustments to the Company'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

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 Company's statement of financial position when the Company becomes a party to the contractual provisions of the instrument.

Notes to the financial statements

3 Significant accounting policies (Cont'd)

(e) Financial instruments (cont'd)

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 Company 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 Company is exposed to credit risk. The measurement of ECL 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 Company 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 Company applies a simplified approach in calculating ECLs.

Notes to the financial statements

3 Significant accounting policies (Cont'd)

(e) Financial instruments (cont'd)

For all other financial instruments, the Company 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 Company measures the loss allowance for that financial instrument at an amount equal to 12-month ECL.

The Company 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 Company 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 Company neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Company recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Company retains substantially all the risks and rewards of ownership of a transferred financial asset, the Company 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.

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 Company 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;
- held for trading; or
- designated as at FVTPL.

Notes to the financial statements

3 Significant accounting policies (Cont'd)

(e) Financial instruments (cont'd)

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 Company derecognises financial liabilities when, and only when, the Company'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.

Notes to the financial statements

3 Significant accounting policies (Cont'd)

(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 asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss account.

(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 company.

(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 Company 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 & Household Equipment	- 4 years
• Plant Machinery, Storage Tank & 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.

Notes to the financial statements

3 Significant accounting policies (Cont'd)

(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.

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.

Notes to the financial statements

3 Significant accounting policies (Cont'd)

(i) Leases

a) The Company as lessee

The Company assesses whether a contract is or contains a lease, at inception of the contract. The Company recognises a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets (such as tablets and personal computers, small items of office furniture and telephones). For these leases, the Company recognises the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the Company uses its incremental borrowing rate.

Lease payments included in the measurement of the lease liability comprise:

- Fixed lease payments (including in-substance fixed payments), less any lease incentives receivable;
- Variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date;
- The amount expected to be payable by the lessee under residual value guarantees;
- The exercise price of purchase options, if the lessee is reasonably certain to exercise the options; and
- Payments of penalties for terminating the lease, if the lease term reflects the exercise of an option to terminate the lease.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

(j) Inventories

Inventories comprise of crude oil stock at year 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.

Notes to the financial statements

3 Significant accounting policies (Cont'd)

(k) Intangible assets

An intangible asset is an identifiable non-monetary asset without physical substance. The Company 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.

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

(a) economic benefits that are attributable to the asset will flow to the entity; and
(b) the costs of the asset can be measured reliably.

The Company 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)	Amortised over the licence period.
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 Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

(ii) Post-employment benefits

Defined contribution plan

A defined contribution plan is a post-employment benefit plan (pension fund) under which the Company pays fixed contributions into a separate entity. The Company 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.

Notes to the financial statements

3 Significant accounting policies (Cont'd)

(m) Provisions

A provision is recognised if, as a result of a past event, the Company 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 Company's Asset Retirement Obligation ("ARO") primarily represents the estimated present value of the amount the Company will incur to plug, abandon, and remediate its areas of operation at the end of their productive lives, in accordance with applicable legislations. The Company 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.

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 Company, 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 Company'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.

Notes to the financial statements

3 Significant accounting policies (Cont'd)

(o) 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.

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 Company 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.

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 manner in which the Company 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.

Notes to the financial statements

4 Measurement of fair values

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

When measuring the fair value of an asset or a liability, the Company 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 Company 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 note 30 – Financial risk management and financial instruments.

5 Adoption of new and revised International Financial Reporting Standards

5.1 New and amended IFRS Standards that are effective for the current year

Impact of the initial application of Covid-19-Related Rent Concessions Amendment to IFRS 16
In May 2020, the IASB issued Covid-19-Related Rent Concessions (Amendment to IFRS 16) that provides practical relief to lessees in accounting for rent concessions occurring as a direct consequence of COVID-19, by introducing a practical expedient to IFRS 16. The practical expedient permits a lessee to elect not to assess whether a COVID- 19-related rent concession is a lease modification. A lessee that makes this election shall account for any change in lease payments resulting from the COVID-19-related rent concession the same way it would account for the change applying IFRS 16 if the change were not a lease modification.

The practical expedient applies only to rent concessions occurring as a direct consequence of COVID-19 and only if all of the following conditions are met:

a) The change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change;
b) Any reduction in lease payments affects only payments originally due on or before 30 June 2021 (a rent concession meets this condition if it results in reduced lease payments on or before 30 June 2021 and increased lease payments that extend beyond 30 June 2021); and
c) There is no substantive change to other terms and conditions of the lease

Notes to the financial statements

5.1 New and amended IFRS Standards that are effective for the current year (Cont'd)

In the current financial year, the Entity has applied the amendment to IFRS 16 (as issued by the IASB in May 2020) in advance of its effective date.

Impact on accounting for changes in lease payments applying the exemption. The Entity has applied the practical expedient retrospectively to all rent concessions that meet the conditions in IFRS 16:46B and has not restated prior period figures.

Impact of the initial application of other new and amended IFRS Standards that are effective for the current year.

IFRS 17 *Insurance Contracts*
IFRS 17 establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts and supersedes IFRS 4 *Insurance Contracts*.

IFRS 17 outlines a general model, which is modified for insurance contracts with direct participation features, described as the variable fee approach. The general model is simplified if certain criteria are met by measuring the liability for remaining coverage using the premium allocation approach.

The general model uses current assumptions to estimate the amount, timing and uncertainty of future cash flows and it explicitly measures the cost of that uncertainty. It takes into account market interest rates and the impact of policyholders' options and guarantees.

The Standard is effective for annual reporting periods beginning on or after 1 January 2021, with early application permitted. It is applied retrospectively unless impracticable, in which case the modified retrospective approach or the fair value approach is applied. An exposure draft *Amendments to IFRS 17* addresses concerns and implementation challenges that were identified after IFRS 17 was published. One of the main changes proposed is the deferral of the date of initial application of IFRS 17 by one year to annual periods beginning on or after 1 January 2022.

For the purpose of the transition requirements, the date of initial application is the start if the annual reporting period in which the entity first applies the Standard, and the transition date is the beginning of the period immediately preceding the date of initial application.

IFRS 10 and IAS 28 (amendments) *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*
The amendments to IFRS 10 and IAS 28 deal with situations where there is a sale or contribution of assets between an investor and its associate or joint venture. Specifically, the amendments state that gains or losses resulting from the loss of control of a subsidiary that does not contain a business in a transaction with an associate or a joint venture that is accounted for using the equity method, are recognised in the parent's profit or loss only to the extent of the unrelated investors' interests in that associate or joint venture. Similarly, gains and losses resulting from the remeasurement of investments retained in any former subsidiary (that has become an associate or a joint venture that is accounted for using the equity method) to fair value are recognised in the former parent's profit or loss only to the extent of the unrelated investors' interests in the new associate or joint venture.

Notes to the financial statements

5.1 New and amended IFRS Standards that are effective for the current year (Cont'd)

The effective date of the amendments has yet to be set by the IASB; however, earlier application of the amendments is permitted. The directors of the Company anticipate that the application of these amendments may have an impact on The Entity's financial statements in future periods should such transactions arise.

Amendments to IFRS 3 *Definition of a business*
The amendments clarify that while businesses usually have outputs, outputs are not required for an integrated set of activities and assets to qualify as a business. To be considered a business an acquired set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs.

Additional guidance is provided that helps to determine whether a substantive process has been acquired.

The amendments introduce an optional concentration test that permits a simplified assessment of whether an acquired set of activities and assets is not a business. Under the optional concentration test, the acquired set of activities and assets is not a business if substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or Entity of similar assets.

The amendments are applied prospectively to all business combinations and asset acquisitions for which the acquisition date is on or after the first annual reporting period beginning on or after 1 January 2020, with early application permitted.

Amendments to IAS 1 and IAS 8 *Definition of material*
The amendments are intended to make the definition of material in IAS 1 easier to understand and are not intended to alter the underlying concept of materiality in IFRS Standards. The concept of 'obscuring' material information with immaterial information has been included as part of the new definition.

The threshold for materiality influencing users has been changed from 'could influence' to 'could reasonably be expected to influence'.

The definition of material in IAS 8 has been replaced by a reference to the definition of material in IAS 1. In addition, the IASB amended other Standards and the *Conceptual Framework* that contain a definition of material or refer to the term 'material' to ensure consistency.

The amendments are applied prospectively for annual periods beginning on or after 1 January 2020, with earlier application permitted.

Amendments to References to the* Conceptual Framework in *IFRS Standards
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.

Notes to the financial statements

5.1 New and amended IFRS Standards that are effective for the current year (Cont'd)

Not all amendments, however, update those pronouncements with regard to references to and quotes from the framework so that they refer to the revised *Conceptual Framework*. Some pronouncements are only updated to indicate which version of the Framework they are referencing to (the IASC *Framework* adopted by the IASB in 2001, the IASB *Framework* of 2010, or the new revised *Framework* of 2018) or to indicate that definitions in the Standard have not been updated with the new definitions developed in the revised *Conceptual Framework*.

The amendments, where they actually are updates, are effective for annual periods beginning on or after 1 January 2020, with early application permitted.

5.2 New and revised IFRS Standards in issue but not yet effective

At the date of authorization of these financial statements, the Company has not applied the following new and revised IFRS Standards that have been issued but are not yet effective:

IFRS 17- *Insurance Contracts*
IFRS 10 and IAS 28 (amendments) - *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*
Amendments to IAS 1 - *Classification of Liabilities as Current or Non-current*
Amendments to IFRS 3 - *Reference to the Conceptual Framework*
Amendments to IAS 16 - *Property, Plant and Equipment Proceeds before Intended Use*
Amendments to IAS 37- *Onerous Contracts Cost of Fulfilling a Contract*
Annual Improvements to IFRS Standards 2018-2020 Cycle - *Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards, IFRS 9 Financial Instruments, IFRS 16 Leases, and IAS 41 Agriculture*

IFRS 17 *Insurance Contracts*

IFRS 17 establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts and supersedes IFRS 4 *Insurance Contracts*. IFRS 17 outlines a general model, which is modified for insurance contracts with direct participation features, described as the variable fee approach. The general model is simplified if certain criteria are met by measuring the liability for remaining coverage using the premium allocation approach.

The general model uses current assumptions to estimate the amount, timing and uncertainty of future cash flows and it explicitly measures the cost of that uncertainty. It takes into account market interest rates and the impact of policyholders' options and guarantees.

The Standard is effective for annual reporting periods beginning on or after 1 January 2021, with early application permitted. It is applied retrospectively unless impracticable, in which case the modified retrospective approach or the fair value approach is applied. An exposure draft Amendments to IFRS 17 addresses concerns and implementation challenges that were identified after IFRS 17 was published. One of the main changes proposed is the deferral of the date of initial application of IFRS 17 by one year to annual periods beginning on or after 1 January 2022.

For the purpose of the transition requirements, the date of initial application is the start if the annual reporting period in which the entity first applies the Standard, and the transition date is the beginning of the period immediately preceding the date of initial application.

Notes to the financial statements

5.2 New and revised IFRS Standards in issue but not yet effective (Cont'd)

Amendments to IFRS 10 and IAS 28 – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The amendments to IFRS 10 and IAS 28 deal with situations where there is a sale or contribution of assets between an investor and its associate or joint venture. Specifically, the amendments state that gains or losses resulting from the loss of control of a subsidiary that does not contain a business in a transaction with an associate or a joint venture that is accounted for using the equity method, are recognised in the parent's profit or loss only to the extent of the unrelated investors' interests in that associate or joint venture.

Similarly, gains and losses resulting from the remeasurement of investments retained in any former subsidiary (that has become an associate or a joint venture that is accounted for using the equity method) to fair value are recognised in the former parent's profit or loss only to the extent of the unrelated investors' interests in the new associate or joint venture.

The effective date of the amendments has yet to be set by the Board; however, earlier application of the amendments is permitted. The directors of the Company anticipate that the application of these amendments may have an impact on the Company's financial statements in future periods should such transactions arise.

Amendments to IAS 1 – *Classification of Liabilities as Current or Non-current*

The amendments to IAS 1 affect only the presentation of liabilities as current or non-current in the statement of financial position and not the amount or timing of recognition of any asset, liability, income or expenses, or the information disclosed about those items.

The amendments clarify that the classification of liabilities as current or non-current is based on rights that are in existence at the end of the reporting period, specify that classification is unaffected by expectations about whether an entity will exercise its right to defer settlement of a liability, explain that rights are in existence if covenants are complied with at the end of the reporting period, and introduce a definition of 'settlement' to make clear that settlement refers to the transfer to the counterparty of cash, equity instruments, other assets or services.

The amendments are applied retrospectively for annual periods beginning on or after 1 January 2023, with early application permitted.

Amendments to IFRS 3 – *Reference to the Conceptual Framework*

The amendments update IFRS 3 so that it refers to the 2018 *Conceptual Framework* instead of the 1989 *Framework*.

They also add to IFRS 3 a requirement that, for obligations within the scope of IAS 37, an acquirer applies IAS 37 to determine whether at the acquisition date a present obligation exists as a result of past events. For a levy that would be within the scope of IFRIC 21 *Levies*, the acquirer applies IFRIC 21 to determine whether the obligating event that gives rise to a liability to pay the levy has occurred by the acquisition date.

Finally, the amendments add an explicit statement that an acquirer does not recognise contingent assets acquired in a business combination.

Notes to the financial statements

5.2 New and revised IFRS Standards in issue but not yet effective (Cont'd)

The amendments are effective for business combinations for which the date of acquisition is on or after the beginning of the first annual period beginning on or after 1 January 2022. Early application is permitted if an entity also applies all other updated references (published together with the updated *Conceptual Framework*) at the same time or earlier.

Amendments to IAS 16 – ***Property, Plant and Equipment—Proceeds before Intended Use***
The amendments prohibit deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced before that asset is available for use, i.e. proceeds while bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Consequently, an entity recognises such sales proceeds and related costs in profit or loss. The entity measures the cost of those items in accordance with IAS 2 *Inventories*.

The amendments also clarify the meaning of 'testing whether an asset is functioning properly'. IAS 16 now specifies this as assessing whether the technical and physical performance of the asset is such that it is capable of being used in the production or supply of goods or services, for rental to others, or for administrative purposes.

If not presented separately in the statement of comprehensive income, the financial statements shall disclose the amounts of proceeds and cost included in profit or loss that relate to items produced that are not an output of the entity's ordinary activities, and which line item(s) in the statement of comprehensive income include(s) such proceeds and cost.

The amendments are applied retrospectively, but only to items of property, plant and equipment that are brought to the location and condition necessary for them to be capable of operating in the manner intended by management on or after the beginning of the earliest period presented in the financial statements in which the entity first applies the amendments.

The entity shall recognise the cumulative effect of initially applying the amendments as an adjustment to the opening balance of retained earnings (or other component of equity, as appropriate) at the beginning of that earliest period presented.

The amendments are effective for annual periods beginning on or after 1 January 2022, with early application permitted.

Amendments to IAS 37 – ***Onerous Contracts—Cost of Fulfilling a Contract***
The amendments specify that the 'cost of fulfilling' a contract comprises the 'costs that relate directly to the contract'. Costs that relate directly to a contract consist of both the incremental costs of fulfilling that contract (examples would be direct labour or materials) and an allocation of other costs that relate directly to fulfilling contracts (an example would be the allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract).

The amendments apply to contracts for which the entity has not yet fulfilled all its obligations at the beginning of the annual reporting period in which the entity first applies the amendments. Comparatives are not restated.

Notes to the financial statements

5.2 New and revised IFRS Standards in issue but not yet effective (Cont'd)

Instead, the entity shall recognise the cumulative effect of initially applying the amendments as an adjustment to the opening balance of retained earnings or other component of equity, as appropriate, at the date of initial application.

The amendments are effective for annual periods beginning on or after 1 January 2022, with early application permitted.

Annual Improvements to IFRS Standards 2018–2020
The *Annual Improvements* include amendments to four Standards.

- **IFRS 1 *First-time Adoption of International Financial Reporting Standards***
  The amendment provides additional relief to a subsidiary which becomes a first-time adopter later than its parent in respect of accounting for cumulative translation differences. As a result of the amendment, a subsidiary that uses the exemption in IFRS 1:D16(a) can now also elect to measure cumulative translation differences for all foreign operations at the carrying amount that would be included in the parent's consolidated financial statements, based on the parent's date of transition to IFRS Standards, if no adjustments were made for consolidation procedures and for the effects of the business combination in which the parent acquired the subsidiary. A similar election is available to an associate or joint venture that uses the exemption in IFRS 1: D16(a).

  The amendment is effective for annual periods beginning on or after 1 January 2022, with early application permitted.

- **IFRS 9 *Financial Instruments***
  The amendment clarifies that in applying the '10 per cent' test to assess whether to derecognise a financial liability, an entity includes only fees paid or received between the entity (the borrower) and the lender, including fees paid or received by either the entity or the lender on the other's behalf.

  The amendment is applied prospectively to modifications and exchanges that occur on or after the date the entity first applies the amendment.

  The amendment is effective for annual periods beginning on or after 1 January 2022, with early application permitted.

- **IFRS 16 *Leases***
  The amendment removes the illustration of the reimbursement of leasehold improvements. As the amendment to IFRS 16 only regards an illustrative example, no effective date is stated.

- **IAS 41 *Agriculture***
  The amendment removes the requirement in IAS 41 for entities to exclude cash flows for taxation when measuring fair value. This aligns the fair value measurement in IAS 41 with the requirements of IFRS 13 *Fair Value Measurement* to use internally consistent cash flows and discount rates and enables preparers to determine whether to use pretax or post-tax cash flows and discount rates for the most appropriate fair value measurement.

  The amendment is applied prospectively, i.e. for fair value measurements on or after the date an entity initially applies the amendment. The amendment is effective for annual periods beginning on or after 1 January 2022, with early application permitted.

Notes to the financial statements

6 Capital Management

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

	2020 NGN'000	2019 NGN'000	2020 US$'000	2019 US$'000
Total liabilities	21,202,677	21,080,974	55,122	58,148
Less: cash and bank balances	(1,078,174)	(269,730)	(2,803)	(744)
Net debt	20,124,503	20,811,244	52,319	57,404
Equity	4,876,594	4,289,937	12,678	11,833
Net debt to equity ratio	4.13	4.85	4.13	4.85

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

7 Revenue

	2020 NGN'000	2019 NGN'000	2020 US$'000	2019 US$'000
Crude oil sales revenue (a)	12,039,509	15,186,036	31,790	42,027
Third party crude handling revenue (c)	429,090	-	1,133	-
	12,468,599	15,186,036	32,923	42,027

(a) Crude oil sales revenue of ₦12.0 billion (US$31.8 million) represents the Company's share of crude oil sales from Otakikpo operation during the year, which is recognised as revenue (“equity crude”), (31 December 2019: of ₦15.2 billion (US$42.0 million)). The Company’s equity crude was 887,811 barrels (31 December 2019: 677,788 barrels) out of which the Company lifted 839,341 barrels (31 December 2019: 634,407 barrels). The balance of 48,470 barrels (31 December 2019: 43,381 barrels) representing the Company's share of overriding royalty crude was lifted on its behalf by its joint operating partner Green Energy International Limited (GEIL) based on an agreed lifting arrangement.

	2020			2019		
	Barrels	NGN’000	US$’000	Barrels	NGN’000	US$’000
Equity crude	887,811	12,039,509	31,790	677,788	15,186,036	42,027
Cost recovery crude	-	-	-	32,745	677,513	1,875
	887,811	12,039,509	31,790	710,533	15,863,549	43,902

Notes to the financial statements

7 Revenue (Cont'd)

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

(c) The Company earned revenue from Ubima Crude Handling Service Fee Agreement totaling ₦0.4 billion (US$1.1 million) for storage, handling and exportation services provided to Ubima Joint Venture. Otakikpo Joint Venture processed 385,395 barrels of crude for Ubima Joint venture during the year.

8 Costs of sales

	2020 NGN'000	2019 NGN'000	2020 US$'000	2019 US$'000
Crude handling, evacuation and production operation costs	2,740,797	2,172,015	7,237	6,011
Depletion	2,513,943	2,244,644	6,638	6,212
Stock adjustments	1,150,930	(446,617)	3,039	(1,236)
Royalty expenses	1,018,378	1,136,776	2,689	3,146
Other expenses	13,634	-	36	-
	7,437,682	5,106,818	19,639	14,133

9 Operating expenses

	2020 NGN'000	2019 NGN'000	2020 US$'000	2019 US$'000
Field personnel costs	1,013,076	1,255,295	2,675	3,474
Community and security expenses	838,486	847,342	2,214	2,345
Field facility management costs	247,683	72,268	654	200
Gas flaring	91,650	119,604	242	331
Other operating costs	22,344	500,095	59	1,384
	2,213,239	2,794,604	5,844	7,734

10 Impairment loss

	2020 NGN'000	2019 NGN'000	2020 US$'000	2019 US$'000
Property, plant and equipment	1,411,111	-	3,726	-
Intangible assets	88,242	-	233	-
Charge for the period	1,499,352	-	3,959	-

As at 31 December 2020, the Company 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 ₦11.4 billion (US$29.6 million) as against initial assets carrying value of ₦12.9 billion (US$33.6 million), the Company has recorded an impairment loss of ₦1.5 billion (US$4.0 million).

Notes to the financial statements

10 Impairment loss (Cont'd)

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 January 2021 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 (46.9% for cash flow projections up to 2021 and 45.6% 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$52.0	US$48.4	US$46.8	US$45.7	US$45.6	US$45.5

11 General and administrative expenses

	2020 NGN'000	**2019 NGN'000**	**2020 US$'000**	**2019 US$'000**
Depreciation and amortization	287,070	855,292	758	2,367
NDDC levy	192,768	131,166	509	363
Rent and facility management expenses	159,441	261,610	421	724
Legal and consultancy expenses	308,657	341,105	815	944
IT and telecommunication expenses	76,123	115,267	201	319
Audit fees	49,612	45,150	131	125
Travel expenses	10,983	93,948	29	260
Employees' costs	1,894	-	5	-
Other Expenses	150,730	178,521	398	494
	1,237,278	2,022,059	3,267	5,596

Notes to the financial statements

12 Finance income and costs

	2020 NGN'000	2019 NGN'000	2020 US$'000	2019 US$'000
Finance income				
Other interest income (a)	1,515	17,344	4	48
Other income/ (expense)				
Foreign exchange gain (b)	335,167	42,277	885	117
foreign exchange loss (b)	(113,616)	-	(300)	-
	221,551	42,277	585	117
Finance costs				
Interest on related party loan	-	260,525	-	721
Non-Group loan Interest Expense (c)	778,270	1,045,357	2,055	2,893
Other finance expenses (d)	146,186	-	386	-
Accretion charge (note 25)	47,340	192,956	125	534
	971,796	1,498,838	2,566	4,148

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

(b) Foreign exchange gain/ (loss)
Net foreign exchange gain represents exchange differences resulting from the conversion of US$ amounts to Nigerian Naira amounts, to meet obligations settled in Nigerian Naira.

(c) Non-Group loan interest expenses
This consists largely of interest costs on third party loans during the year.

(d) Other finance costs
This consists largely of other non-group finance charges such as hedging cost.

13 (Loss)/ profit before income tax

Profit before income tax is stated after charging:

	2020 NGN'000	2019 NGN'000	2020 US$'000	2019 US$'000
Depreciation and amortization	2,801,013	3,099,936	7,396	8,579
Auditors remuneration	49,612	45,150	131	125

Notes to the financial statements

14 Taxes

(a) Petroleum profit tax

The Company with its principal assets and operations in Nigeria is subject to the Petroleum Profit Tax Act of Nigeria (PPTA). The Company's Petroleum Profit Tax movement for the year is summarised below:

	2020 NGN'000	2019 NGN'000	2020 US$'000	2019 US$'000
At 1 January	229,125	1,055,930	632	2,889
Charge for the year	406,745	720,873	1,074	1,995
Tertiary education tax	73,093	142,007	193	392
Payment for the year	(9,468)	(1,678,063)	(25)	(4,644)
Translation effect	21,339	(11,622)	-	-
At 31 December	720,834	229,125	1,874	632

(b) Company income tax

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

	2020 NGN'000	2019 NGN'000	2020 US$'000	2019 US$'000
At 1 January	179,095	816,893	494	2,235
Charge for the year	379	5,059	1	14
Tertiary education tax	-	361	-	1
Payment for the year	(64,004)	(634,513)	(169)	(1,756)
Translation effect	9,926	(8,705)	-	-
At 31 December	125,396	179,095	326	494

(c) Deferred tax assets

The Company has recognized deferred tax assets of ₦6.7 billion (US$17.5 million) in the current year (2019: ₦4.9 billion (US$13.6 million)); derived from the activities in Otakikpo marginal field. The Directors have assessed the future profitability of its operation in Otakikpo marginal field and have a reasonable expectation that the Company will make sufficient taxable profit in the near future to utilise the deferred tax assets.

	2020 NGN'000	2019 NGN'000	2020 US$'000	2019 US$'000
At 1 January	4,923,293	6,687,188	13,580	18,296
Charge for the year	1,467,919	(1,704,079)	3,876	(4,716)
Translation effect	323,239	(59,816)	-	-
At 31 December	6,714,451	4,923,293	17,456	13,580

Notes to the financial statements

14 Taxes (cont'd)

(c) Deferred tax assets

Deferred tax at 31 December relates to the following:

	Statement of financial position		Statement of profit or loss and other comprehensive income	
	2020	2019	2020	2019
	NGN'000	NGN'000	NGN'000	NGN'000
Deferred tax liability				
Accumulated unrealised net exchange gain carried forward	(1,547,062)	(1,436,383)	22,723	33,965
	(1,547,062)	(1,436,383)	22,723	33,965
Deferred tax assets				
Property, plant and equipment	907,005	2,205,693	1,411,111	1,883,305
Unutilised capital allowances	7,221,804	4,010,417	(2,921,067)	(85,999)
Provision for assets retirement obligation	132,704	143,566	19,315	(127,192)
	8,261,513	6,359,676	(1,490,641)	1,670,114
Deferred tax expense				
Deferred tax assets (net)	**6,714,451**	**4,923,293**	**(1,467,918)**	**1,704,079**

	Statement of financial position		Statement of profit or loss and other comprehensive income	
	2,020	2,019	2,020	2,019
	USD'000	USD'000	USD'000	USD'000
Deferred tax liability				
Accumulated unrealised net exchange gain carried forward	(4,022)	(3,962)	60	95
	(4,022)	(3,962)	60	95
Deferred tax assets				
Property, plant and equipment	2,358	6,084	3,726	5,211
Unutilised capital allowances	18,775	11,062	(7,713)	(238)
Provision for assets retirement obligation	345	396	51	(352)
	21,478	17,542	(3,936)	4,621
Deferred tax expense				
Deferred tax assets (net)	**17,456**	**13,580**	**(3,876)**	**4,716**

Notes to the financial statements

14 Taxes (cont'd)

(d) Total income tax expense recognized in the year.

	2020 NGN'000	2019 NGN'000	2020 US$'000	2019 US$'000
Petroleum profit tax	406,745	720,873	1,074	1,995
Company income tax	379	5,059	1	14
Tertiary education tax	73,093	142,007	193	393
Deferred tax charge	(1,467,919)	1,704,079	(3,876)	4,716
	(987,702)	2,572,018	(2,608)	7,118

(e) Current tax liabilities

	2020 NGN'000	2019 NGN'000	2020 US$'000	2019 US$'000
At 1 January	408,220	1,872,822	1,126	5,124
Charge for the year:				
- Petroleum profit tax	406,745	720,873	1,074	1,995
- Company income tax	379	5,059	1	14
- Tertiary education tax	73,093	142,007	193	393
Payment	(73,472)	(2,312,576)	(194)	(6,400)
Translation effect	31,265	(19,965)	-	-
At 31 December	846,230	408,220	2,200	1,126

(e) Reconciliation of tax expenses

	2020 NGN'000	2019 NGN'000	2020 US$'000	2019 US$'000
(Loss)/ profit before tax from continuing operations	(667,682)	3,823,338	(1,763)	10,581
Income tax expense calculated at 65.75%	(439,002)	2,513,845	(1,159)	6,958
Effect of expenses that are not deductible in determining taxable profit - PPT	4,835,943	2,183,214	12,769	6,041
Effect of income not taxable in determining taxable profit	379	(46,252)	1	(128)
Tax effect of capital allowance utilised in the year	(2,014,790)	(3,929,934)	(5,320)	(10,876)
Effect of Tertiary education tax on taxable profit	73,093	142,007	193	393
Effect of Companies income tax on JV carried interest income	-	5,059	-	14
Change in deferred tax assets	(1,467,921)	1,704,079	(3,876)	4,716
	987,702	2,572,018	2,608	7,118
Income tax expense	987,702	2,572,018	2,608	7,118
Effective income tax rate	(148%)	67%	(148%)	67%

Notes to the financial statements

15 Property, Plant and Equipment

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

	Oil and Gas Assets NGN'000	Motor Vehicles NGN'000	Furniture & Fittings NGN'000	Computers, Communication & Household Equipment NGN'000	Plant, Machinery, Storage Tank & Others NGN'000	Leasehold Improvement NGN'000	Total NGN'000
Cost:							
At 1 January 2019	19,549,133	22,296	18,275	51,170	103,437	106,361	19,850,672
Additions	1,131,356	70,823	1,084	-	10,118	-	1,213,381
Changes to decommissioning estimate	(27,823)	-	-	-	-	-	(27,823)
Translation effects	(154,564)	54	(144)	(414)	(805)	(862)	(156,825)
At 31 December 2019	20,498,012	93,173	19,215	50,756	112,750	105,499	20,879,405
At 1 January 2020	20,498,012	93,173	19,215	50,756	112,750	105,499	20,879,405
Additions	835,456	-	-	-	-	-	835,456
Translation effects	1,263,181	5,682	1,171	3,095	6,876	6,434	1,286,439
At 31 December 2020	22,596,649	98,855	20,386	53,851	119,626	111,933	23,001,300
Accumulated Depreciation and Impairment losses:							
At 1 January 2019	5,197,410	18,641	8,772	43,495	36,185	17,544	5,322,047
Charge for the year	2,244,644	9,395	3,613	2,891	20,958	3,252	2,284,753
Translation effect	(34,637)	(121)	(58)	(343)	(223)	(131)	(35,513)
At 31 December 2019	7,407,417	27,915	12,327	46,043	56,920	20,665	7,571,287
At 1 January 2020	7,407,417	27,915	12,327	46,043	56,920	20,665	7,571,287
Charge for the year	2,513,943	14,770	2,651	1,136	26,889	4,545	2,563,934
Impairment loss (note 10)	1,411,111	-	-	-	-	-	1,411,111
Translation effect	513,210	1,934	793	2,826	3,891	1,331	523,985
At 31 December 2020	11,845,681	44,619	15,771	50,005	87,700	26,541	12,070,317
Carrying amounts:							
At 31 December 2019	13,090,595	65,258	6,888	4,713	55,830	84,834	13,308,118
At 31 December 2020	10,750,968	54,236	4,615	3,846	31,926	85,392	10,930,983

Notes to the financial statements

15 Property, Plant and Equipment

	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$'000	Leasehold Improvement US$'000	Total US$'000
Cost:							
At 1 January 2019	53,486	61	50	140	283	291	54,311
Additions	3,131	196	3	-	28	-	3,358
Changes to decommissioning estimate	(77)	-	-	-	-	-	(77)
At 31 December 2019	56,540	257	53	140	311	291	57,592
At 1 January 2020	56,540	257	53	140	311	291	57,592
Additions	2,206	-	-	-	-	-	2,206
At 31 December 2020	58,746	257	53	140	311	291	59,798
Accumulated depreciation and impairment losses:							
At 1 January 2019	14,220	51	24	119	99	48	14,561
Charge for the year	6,212	26	10	8	58	9	6,323
At 31 December 2019	20,432	77	34	127	157	57	20,884
At 1 January 2020	20,432	77	34	127	157	57	20,884
Charge for the year	6,638	39	7	3	71	12	6,770
Impairment loss (note 10)	3,726	-	-	-	-	-	3,726
At 31 December 2020	30,796	116	41	130	228	69	31,380
Carrying amounts:							
At 31 December 2019	36,108	180	19	13	154	234	36,708
At 31 December 2020	27,950	141	12	10	83	222	28,418

The additions of ₦0.8 billion (US$2.2 million) during the year consist largely of capital expenditure on production facilities in the Otakikpo marginal field.

Notes to the financial statements

16 Intangible Assets

The movement on the intangible assets account was as follows:

	Mineral Rights Acquisition Costs* NGN'000	Accounting Software NGN'000	Total NGN'000
Costs			
At 1 January 2019	2,558,500	2,559	2,501,219
Additions during the year	144,536	-	144,536
Translation effects	(20,240)	(21)	(20,261)
At 31 December 2019	2,682,796	2,538	2,685,334
At 1 January 2020	2,682,796	2,538	2,685,334
Additions during the year	-	-	-
Translation effects	163,614	155	163,769
At 31 December 2020	2,846,410	2,693	2,849,103
Accumulated amortization			
At 1 January 2019	930,197	2,559	932,756
Charge for the year	815,183	-	815,183
Translation effects	(4,825)	(21)	(4,846)
At 31 December 2019	1,740,555	2,538	1,743,093
At 1 January 2020	1,740,555	2,538	1,743,093
Charge for the year	237,079	-	237,079
Impairment loss (note 10)	88,241	-	88,241
Translation effects	111,244	155	111,399
At 31 December 2020	2,177,119	2,693	2,179,812
Carrying amounts:			
At 31 December 2019	942,241	-	942,241
At 31 December 2020	669,291	-	669,291

Notes to the financial statements

16 Intangible Assets (cont'd)

	Mineral Rights Acquisition Costs* US$'000	Accounting Software US$'000	Total US$'000
Costs			
At 1 January 2019	7,000	7	7,007
Additions during the year	400	-	400
At 31 December 2019	7,400	7	7,407
At 1 January 2020	7,400	7	7,407
Additions during the year	-	-	-
At 31 December 2020	7,400	7	7,407
Accumulated amortization			
At 1 January 2019	2,545	7	2,552
Charge for the year	2,256	-	2,256
At 31 December 2019	4,801	7	4,808
At 1 January 2020	4,801	7	4,808
Charge for the year	626	-	626
Impairment loss (note 10)	233	-	233
At 31 December 2020	5,660	7	5,667
Carrying amounts			
At 31 December 2019	2,599	-	2,599
At 31 December 2020	1,740	-	1,740

*Mineral rights acquisition costs represent the signature bonus for the Otakikpo marginal field amounting to ₦2.5 billion (US$7.0 million) paid in 2014 to Green Energy Internal Limited. A further ₦144.5 million (US$0.4 million) being the Company share of renewal of Otakikpo Marginal field license was paid in September 2019.

17 Inventories

Inventories consist of the Company's share of crude stock of ₦0.4 billion (US$1.0 million) as at 31 December 2020 (2019: ₦1.0 billion (US$2.8 million)).

Notes to the financial statements

18 Trade receivables

Trade receivables comprise:

	2020 NGN'000	2019 NGN'000	2020 US$'000	2019 US$'000
Third party crude handling receivables (note 7(b))	435,808	-	1,133	-

19 Other receivables

	2020 NGN'000	2019 NGN'000	2020 US$'000	2019 US$'000
Cash call receivable from joint operating partner (a)	-	858,132	-	2,367
Due from related parties (b)	5,187,007	3,646,427	13,485	10,058
Others	19,234	18,128	50	50
	5,206,241	4,522,687	13,535	12,475

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

(b) Due from related parties

	2020 NGN'000	2019 NGN'000	2020 US$'000	2019 US$'000
Mayfair Assets and Trust Limited	3,814,959	3,561,229	9,918	9,823
Lekoil 310 Limited	1,247,420	-	3,243	-
Lekoil Exploration and Production (Pty) Limited (Namibia)	38,850	36,617	101	101
Ashbert Oil and Gas Limited	33,465	31,541	87	87
Lekoil Exploration and Production Limited	22,694	3,263	59	9
Lekoil Management Services (UK) Limited	14,617	-	38	-
Lekgas Nigeria Limited	8,078	7,251	21	20
Princeton Assets and Trust Limited	2,693	2,538	7	7
Lekoil Oil and Gas Integrated Ltd	1,923	1,813	5	5
Lekpower Limited	1,539	1,450	4	4
Lekoil Supply & Trading Limited	769	725	2	2
	5,187,007	3,646,427	13,485	10,058

Notes to the financial statements

20 Other assets

Other assets comprise:

	2020 NGN'000	2019 NGN'000	2020 US$'000	2019 US$'000
Restricted cash (a)	661,598	395,168	1,720	1,090
Prepaid insurance	(2,693)	2,537	(7)	7
Others	-	363	-	1
	658,905	398,068	1,713	1,098

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

21 Pre-paid development costs

Prepaid development costs comprise:

	2020 NGN'000	2019 NGN'000	2020 US$'000	2019 US$'000
At 1 January	-	340,281	-	931
Recoveries during the year	-	(336,408)	-	(931)
Translation effects	-	(3,873)	-	-
At 31 December	-	-	-	-

22 Cash and bank balance

	2020 NGN'000	2019 NGN'000	2020 US$'000	2019 US$'000
Cash and bank balance	1,078,174	269,730	2,803	744

23 Capital and reserves

(a) Share capital

	2020 NGN'000	2019 NGN'000	2020 US$'000	2019 US$'000
Authorised – 10,000,000 ordinary shares of NGN1 each converted at historical rate of ₦157.67/US$1	10,000	10,000	63	63
Issued, called up and fully paid 2,500,000 ordinary shares of NGN1 each converted at historical rate of ₦157.67/$1	2,500	2,500	16	16

(b) Translation reserve

This represents foreign exchange difference arising from translation of the financial statements from the functional currency (US Dollar) to presentation currency (Nigeria Naira).

Notes to the financial statements

24 Trade and other payables

	2020 NGN'000	2019 NGN'000	2020 US$'000	2019 US$'000
Due to related parties - Note 27 (c)	7,645,688	10,235,229	19,877	28,232
Accounts payable	2,128,268	1,619,103	5,533	4,466
Cash call payables	1,905,941	-	4,955	-
Other statutory deductions	1,196,262	698,977	3,110	1,928
Crude over lift	486,198	-	1,264	-
Non-government royalties	239,252	189,246	622	522
Accrued expenses	213,865	149,004	556	411
Others	177,708	-	462	-
	13,993,182	12,891,559	36,379	35,559

25 Provisions for asset retirement obligation

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

	2020 NGN'000	2019 NGN'000	2020 US$'000	2019 US$'000
At 1 January	821,153	660,824	2,265	1,808
Unwinding of discount	47,340	192,956	125	534
Effect of changes to decommissioning estimates	-	(27,823)	-	(77)
Translation effects	50,821	(4,804)	-	-
At 31 December	919,314	821,153	2,390	2,265

The Company has recognised a provision for asset retirement obligation ("ARO") which represents the estimated present value of the amount the Company will incur to plug, abandon and remediate Otakikpo operation at the end of the productive lives, in accordance with applicable legislations. The provision has been estimated at a US inflation rate of 1.4% and discounted to present value at 4.6%. The provision recognised represents 40% of the net present value of the estimated total future cost as the Company's partner, GEIL is expected 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.

In prior year, the Company revised its estimate due to change in the economic life of the reserve type used as the basis for the determination of the decommissioning obligation from 2025 to 2026 as a result of the updated competent persons report (CPR) concluded in June 2019. The impact of this change in estimate has been affected in the table above. Management estimates that the future decommissioning event will occur in 2026.

Notes to the financial statements

26 Loans and borrowings

(a) (i)

	2020 NGN'000	2019 NGN'000	2020 US$'000	2019 US$'000
Loan due to others	5,443,951	6,960,042	14,153	19,198
Non-current	3,212,981	4,368,244	8,353	12,049
Current	2,230,970	2,591,798	5,800	7,149
	5,443,951	6,960,042	14,153	19,198

(ii) Movement in loans due to related party

	2020 NGN'000	2019 NGN'000	2020 US$'000	2019 US$'000
At 1 January	-	3,492,353	-	9,555
Draw-down during the year	-	-	-	-
Repayments during the year	-	(3,678,441)	-	(10,276)
Interest during the year	-	260,525	-	721
Reclassification to intercompany payable (Lekoil Limited)	-	-	-	-
Translation effects	-	(74,437)	-	-
At 31 December	-	-	-	-

(iii) Movement in loans due to others

	2020 NGN'000	2019 NGN'000	2020 US$'000	2019 US$'000
At 1 January	6,960,042	7,487,268	19,198	20,485
Draw-down during the year	1,647,432	4,155,410	4,350	11,500
Effective interest during the year	778,270	1,045,357	2,055	2,893
Principal repayment during the year	(3,464,530)	(4,557,943)	(9,148)	(12,614)
Interest and fees paid during the year	(871,814)	(1,278,060)	(2,302)	(3,537)
Revaluation adjustments	-	170,191	-	471
Translation effects	394,551	(62,181)	-	-
At 31 December	5,443,951	6,960,042	14,153	19,198

Notes to the financial statements

26 Loans and borrowings (cont'd)

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

	Interest rate p.a.	**2020 NGN'000**	**2019 NGN'000**	**2020 US$'000**	**2019 US$'000**
US$10 million FBNC Dollar Facility	10% + LIBOR	-	1,072,031	-	2,957
US$8.55 million FBNQuest MB Facility	10% + LIBOR	-	1,898,258	-	5,236
US$15.9 million FBNM Facility	10% + LIBOR	5,443,951	-	14,153	-
US$11.5 million FBNM Facility	10% + LIBOR	-	3,989,753	-	11,005
Total		5,443,951	6,960,042	14,153	19,198

(a) In July 2020, the Company executed a Restructuring Offer Letter with its existing lenders, FBNQuest Merchant Bank Limited ("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.
- Interest will be paid quarterly in arrears with the pricing remaining at LIBOR + 10.0%.
- Uneven quarterly term loan principal repayment.

(b) During the year, the Company accessed advance payment from Shell Western Supply and Trading Limited ("Shell Western") of ₦1.3 billion (US$3.5 million) against future crude lifting. The facility was fully repaid in November 2020.

Notes to the financial statements

26 Loans and borrowings (Cont'd)

e) Changes in liabilities arising from financing activities:

	Cash changes				Non-cash changes			
	1 January 2020 NGN'000	Draw-down during the year NGN'000	Principal repayment NGN'000	Interest and fees paid NGN'000	Effective interest NGN'000	Revaluation NGN'000	Translation effects NGN'000	31 December 2020 NGN'000
Loan due to others	6,960,042	1,647,432	(3,464,530)	(871,814)	778,270	-	394,551	5,443,951
Total liabilities from financing activities	6,960,042	1,647,432	(3,464,530)	(871,814)	778,270	-	394,551	5,443,951

	Cash changes			Non-cash changes				
	1 January 2020 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	Reclassification US$'000	31 December 2020 US$'000
Loan due to others	19,198	4,350	(9,148)	(2,302)	2,055	-	-	14,153
Total liabilities from financing activities	19,198	4,350	(9,148)	(2,302)	2,055	-	-	14,153

Notes to the financial statements

27 Related Party Transactions

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

(a) Lekoil Limited, Cayman Islands

Lekoil Limited, Cayman Islands is a company incorporated in the Cayman Islands and is related to the Company by way of ownership of 40% of the issued share capital in the Company's parent company, Lekoil Nigeria Limited. As at 31 December 2020, the two companies had common directorship, allowing Lekoil Limited to have control of the Board and operations of Lekoil Nigeria, thus making Lekoil limited the ultimate parent company.

By virtue of the facility agreement effective 12 May 2014, Lekoil Limited, Cayman Islands (the lender) made available to the Company loan facilities at a 9% per annum plus LIBOR with a maturity date of 12 May 2024, to finance its operating and capital expenses. The loan was fully repaid during the year.

(b) Key management personnel and director transactions

There was an outstanding balance with a former Director in respect of well completion services rendered by SOWSCO Wells Services Nigeria Limited, which was settled during the year.

(c) Due to related parties

	2020 NGN'000	2019 NGN'000	2020 US$'000	2019 US$'000
Lekoil Nigeria Limited	2,639,084	3,041,711	6,861	8,390
Lekoil Limited	4,998,911	7,186,268	12,996	19,822
Lekoil Energy Nigeria Limited	7,693	7,250	20	20
	7,645,688	10,235,229	19,877	28,232

28 Events after the Reporting Date

There have been no events between the reporting date and the date of authorizing these financial statements that have not been adjusted for or disclosed in these financial statements.

29 Financial Commitments and Contingencies

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.

Subsequent to year end in July 2021, the MOU was amended to 4% of the net revenue from the Liquefied Petroleum Gas (LPG) produced from the field in each financial year whenever the LPG plant begins production, and the allocation of the sum of N130 million annually for sustainable community development activities to be determined by the host community and the joint operation.

Notes to the financial statements

29 Financial Commitments and Contingencies (cont'd)

(a) Litigation and claims

(i) Mr. Sotonye Boyle Vs. Lekoil Nigeria Limited, Suit No. NICN/PHC/1372018.
The Claimant was employed by the Defendant (Lekoil Nigeria Limited) as an Offtake Supervisor. Upon termination of his employment by the Defendant, the Claimant instituted an action against the Defendant at the National Industrial Court of Nigeria, Port Harcourt Judicial Division seeking the following reliefs:

(b) Litigation and claims

- An Order awarding damages of US$137,916 (N50,000,000) only against the Defendant for wrongful termination of employment
- An Order awarding damages of US$1,379 (N500,000) only against the Defendant being compensation for unfair labor practice.
- An Order of mandatory injunction compelling the Defendant to pay the Claimant his terminal benefits upon the wrongful termination of his employment as a permanent staff of the Defendant.

The matter came for trial on March 4, 2020 wherein the claimant opened and closed his case. It was adjourned to April 28th & 29th, 2020 for cross-examination and defence which could not hold due to the Covid-19 nationwide lockdown. The matter has now been adjourned to September 23, 2021 for continuation of Cross Examination of CW/ and Defence. Management does not expect an adverse judgement regarding the case and no accrual has been made in the books for the claim.

(ii) Sir Lawrence E. Ereforokuma (JP) and Co Vs. Green Energy International Limited and Lekoil Oil and Gas Investments Limited, Suit No. PHC/1972/2019.
The Claimants by Writ of Summons dated June 19, 2019 instituted an action against the Defendants at the High Court of Rivers State, Port Harcourt seeking for the following declarations:

- A declaration that the Claimants are the customary overlords or landlords of all the parcel of land known as Uko Efeek (Ozu Efere) and Otakikpo situates at Andoni mainland, west of the Imo River in Andoni Local Government Area of Rivers State of Nigeria, more particularly described in paragraph 4 of the Statement of Claim in this suit.
- A declaration that the occupation and drilling of crude oil and other mineral resources by the 1st Defendants at Otakikpo oil well 1, 2, and 3 on the parcel of land situates at Andoni mainland, Andoni Local Government Area of Rivers State of Nigeria without the consent of the Ereforokuma Arong Royal family of Ngo Town and Andoni is an act of trespass.
- The sum of N5,000,000 (Five Million Naira) only being general exemplary/aggravated damages for the unlawful trespass of the Defendants on the Claimant's land in dispute.
- An Order of injunction restraining the Defendants whether by themselves, their agents, heirs or representatives or howsoever called from further trespassing on the Claimants land in dispute
- The sum of N5,000,000 (Five Million Naira) only as cost of this action.
- 10% Interest rate per annum on judgement sum from date of judgement till judgement debt is fully liquidated.

This suit was slated for Pre-Trial proceedings on the 11th of December 2020. However, the Court did not sit as a two days holiday was declared in honour of late Justice Ogbuji. The matter was adjourned to the 10th of March 2021. However, the court did not sit on that date and a new date is yet to be set for the matter due to the recently concluded judiciary staff union of Nigeria (JUSUN) strike and impending court vacation.

Notes to the financial statements

29 Financial Commitments and Contingencies (cont'd)

(iii) Uwensuyi-Edosomwan & Co Vs. Green Energy International Limited and Lekoil Oil and Gas Investments Limited, Suit No. FHC/PH/CS/21/2020

The claim was instituted by in March 2020 Mr. Dick Charles Mbaba and Mr. Ibibara Fredrick representing Ebukuma Community Fishermen in Otakikpo Marginal Field License Area against the Otakikpo JV Partners named as 2nd and 3rd Defendants. The Claimants alleged that the seismic operation awarded by the Otakikpo JV Partners and carried out without their approval.

The claim seeks for the following reliefs:

(a) Declaration that the commencement and conduct of seismic activities or seismic surveys by the Defendant in Ebukuma Community in Andoni Local Government Area of Rivers State without first obtaining the approval or permission as required under the Environment Impact Assessment Act, and or without the proper Environmental Impact Assessment study in Ebukuma Community being carried out by the Defendant before the approval or permission was obtained by the Defendant to embark on seismic activities or seismic surveys in Ebukuma Community is Unlawful, and amounts to gross violation of the Environment rights of the Claimants.

(b) An Order of perpetual injunction restraining the Defendant, its agents, privies or howsoever described from relying upon or using any seismic survey report conducted in Ebukuma Community in Andoni Local Government Area of Rivers State in gross violations of the relevant provisions of Environment Impact Assessment Act.

(c) An Order of perpetual injunction restraining the Defendants' agents, privies or howsoever described from conducting, continuing or further conduct of seismic activities or surveys in Ebukuma community in Andoni Local Government Area of Rivers State.

(d) An Order for the payment of the sum of N600,000,000.00 (Six Hundred Million Naira) jointly and severally against the Defendants as exemplary and aggravated Damages.

Otakikpo JV Partners intend to file Preliminary Objection seeking to strike out the originating summons on technical grounds. The suit was slated for 2nd November 2020, but the court did not sit as the Judge was not in town. The suit was therefore adjourned to 2nd February 2021; however, the court also did not sit, and a new date is yet to be set for the matter due to the recently concluded JUSUN strike and impending court vacation.

(iv) Other matters for which the Company is not a direct party have not been disclosed

30 Financial risk management and financial instruments

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

- credit risk
- liquidity risk
- market risk

This note presents information about the Company's exposure to each of the above risks, the Company's objectives, policies, and processes for measuring and managing risk, and the Company'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 Company's risk management framework.

The Company's risk management policies are established to identify and analyse risks faced by the Company, 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 Company's activities. The Company, 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.

(a) Credit risk
Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the Company's receivables from joint operating partners 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:

	Notes	**2020** **NGN'000**	**2019** **NGN'000**	**2020** **US$'000**	**2019** **US$'000**
Cash and bank balance	22	1,078,174	269,730	2,803	744
Trade receivables	18	435,808	-	1,133	-
Other receivables	19	5,206,241	4,522,687	13,535	12,475
		6,720,223	4,792,417	17,471	13,219

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

Notes to the financial statements

30 Financial risk management and financial instruments (Cont'd)

In respect of other receivables, they consist largely of receivables from its joint operating partner in the Otakikpo marginal field (GEIL). Management has assessed that the receivable from GEIL is unimpaired as the Company has agreed a repayment plan with GEIL whereby the Company pays less amount for its share of cash call obligation until the amount is fully received.

Cash and bank balances

The cash and bank balances of ₦1.0 billion (US$2.8 million) (2019: ₦0.27 billion (US$0.74 million)) are held with reputable financial institutions with high credit ratings.

Notes to the financial statements

30 Financial risk management and financial instruments (Cont'd)

(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 Company can be required to pay.

	Weighted average effective interest rate	**Less than 1 month NGN'000**	**1-3 months NGN'000**	**3 months to 1 year NGN'000**	**1-5 years NGN'000**	**5+ years NGN'000**	**Total NGN'000**
31 December 2020							
Non- interest bearing	n/a	-	1,399,318	4,702,885	7,890,979	-	13,993,182
Variable interest rate instrument	13.63%						
Loans due to others							
Principal repayments		-	549,144	1,647,432	3,288,804	-	5,750,484
Interest repayments		-	138,233	331,759	356,754	-	980,885
Loans due to related party							
Principal & interest repayments		-	-	-	-	-	-
		-	2,086,695	6,682,076	11,536,537	-	20,724,551
31 December 2019							
Non- interest bearing	n/a	35,528	70,695	12,785,336	-	-	12,891,559
Variable interest rate instrument	13.75%						
Loans due to others							
Principal repayments		-	616,318	1,973,668	4,400,873	-	6,990,859
Interest repayments		-	214,986	527,858	631,907	-	1,374,751
Loans due to related party							
Principal & interest repayments		-	-	-	-	-	-
		35, 528	901,999	15,286,862	5,032,780	-	21,257,169

	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 2020							
Non- interest bearing	n/a	-	3,638	12,226	20,515	-	36,379
Variable interest rate instrument							
Loans due to others							
Principal repayments	13.63%	-	1,450	4,350	8,684	-	15,484
Interest repayments		-	365	876	942	-	2,590
Loans due to related party							
Principal & interest repayments		-	-	-	-	-	-
		-	5,453	17,452	30,141	-	54,153

Notes to the financial statements

30 Financial risk management and financial instruments (Cont'd)

(b) Liquidity risk

	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 2019							
Non- interest bearing	n/a	98	195	35,266	-	-	35,559
Variable interest rate Instrument							
Loans due to others							
Principal repayments	13.75%	-	1,700	5,444	12,139	-	19,283
Interest repayments		-	593	1,456	1,743	-	3,792
Loans due to related party							
Principal & interest repayments		-	-	-	-	-	-
		98	2,488	42,166	13,882	-	58,634

31 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 Company'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 Company manages market risks by monitoring market developments and discussing issues regularly, and mitigating actions taken where necessary.

Currency risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The company undertakes transactions denominated in foreign currencies; consequently, exposures to exchange rate fluctuations arise. Exchange rate exposures are managed within approved policy parameters. The Company's exposure to the risk of changes in foreign exchange rates is minimal as most of its transactions are carried out in its functional currency.

Sensitivity analysis

A 20 percent strengthening of the US Dollar against the Naira 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.

		Foreign exchange rate risk			
		20%		(-20%)	
	Carrying Amount NGN'000	Profit or loss NGN'000	Other Movements in Equity NGN'000	Profit or loss NGN'000	Other Movements in Equity NGN'000
31 December 2020					
Financial Assets:					
Cash and bank balances	11,155	2,231	-	(2,231)	-
Other receivables					
Other assets	165,784	33,156	-	(33,156)	-
Impact on financial assets	-	35,387	-	(35,387)	-
Financial Liabilities:					
Loans due to others	-	-	-	-	-
Trade and other payables	(16,925)	(3,385)		3,385	
Impact on financial liabilities	-	(3,385)	-	3,385	-
Total impact	-	32,002	-	(32,002)	-

Notes to the financial statements

31 Market risk(cont'd)

		Foreign exchange rate risk			
		20%		(-20%)	
	Carrying Amount NGN'000	Profit or loss NGN'000	Other Movements in Equity NGN'000	Profit or loss NGN'000	Other Movements in Equity NGN'000
31 December 2019					
Financial Assets:					
Cash and bank balances	27,553	5,511	-	(5,511)	-
Other receivables					
Other assets	280,606	56,121	-	(56,121)	-
Impact on financial assets	-	61,632	-	(61,632)	-
Financial Liabilities:					
Loans due to others	-	-	-	-	-
Trade and other payables	(2,900)	(580)		580	
Impact on financial liabilities	-	(580)	-	580	-
Total impact	-	61,052	-	(61,052)	-

The amounts shown represent the impact of foreign currency risk on the Company's 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.

Notes to the financial statements

31 Market risk(cont'd)

(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.

		Carrying amount			Carrying amount		
	Note	Loans and receivables NGN'000	Other financial liabilities NGN'000	Total NGN'000	Loans and receivables US$'000	Other financial liabilities US$'000	Total US$'000
31 December 2020							
Loans and receivables							
Trade receivables	18	435,808	-	435,808	1,133	-	1,133
Other receivables	19	5,206,241	-	5,206,241	13,535	-	13,535
Cash and bank balances	22	1,078,174	-	1,078,174	2,803	-	2,803
		6,720,223	-	6,720,223	17,471	-	17,471
Financial liabilities measured at amortised costs							
Loans due to others	26	-	5,443,951	6,960,042	-	14,153	14,153
Trade and other payables*	24	-	12,796,920	12,796,920	-	33,269	33,269
		-	18,240,871	18,240,871	-	47,422	47,422

Notes to the financial statements

31 Market risk(cont'd)

(d) Fair values (cont'd)

	Note	Carrying amount			Carrying amount		
		Loans and receivables NGN'000	Other financial liabilities NGN'000	Total NGN'000	Loans and receivables US$'000	Other financial liabilities US$'000	Total US$'000
31 December 2019							
Loans and receivables							
Trade receivables	18	-	-	-	-	-	-
Other receivables	19	4,522,687	-	4,522,687	12,475	-	12,475
Cash and bank balances	22	269,730	-	269,730	744	-	744
		4,792,417	-	4,792,417	13,219	-	13,219
Financial liabilities measured at amortised costs							
Loans due to others	26	-	6,960,042	6,960,042	-	19,198	19,198
Trade and other payables*	24	-	12,192,582	12,192,582	-	33,631	33,631
		-	19,152,624	19,152,624	-	52,829	52,829

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

Other National Disclosures

Value added statement

	2020 NGN'000	%	2019 NGN'000	%	2020 US$'000	%	2019 US$'000	%
Revenue	12,468,599		15,186,036		32,893		42,027	
Finance income	223,066		59,621		589		165	
Brought-in-materials and services								
- Local	(9,586,537)		(6,823,545)		(25,313)		(18,884)	
- Imported	-		-		-		-	
Value added by operating activities	3,105,128	100	8,422,112	100	8,199	100	23,308	100
Distribution:								
- To providers of capital as finance costs	971,796	31	1,498,838	18	2,566	31	4,148	18
- Government as taxes	480,217	15	867,939	10	1,268	10	2,402	10
Retained in the business:								
- For replacement of property, plant and equipment (depletion, depreciation and amortization)	2,801,013	90	3,099,936	37	7,396	90	8,579	37
- Deferred tax expense	(1,467,918)	(47)	1,704,079	20	(3,876)	(47)	4,716	20
- Profit for the year	320,020	10	1,251,320	15	845	10	3,463	15
	3,105,128	100	8,422,112	100	8,199	100	23,308	100

The value added represents the wealth created through the use of the Company's assets by its employees, management and Board. This statement shows the allocation of that wealth to employees, providers of finance, shareholders and that retained for the future creation of more wealth.

Financial summary

	2020 NGN'000	2019 NGN'000	2018 NGN'000	2017 NGN'000	2016 NGN'000	2020 US$'000	2019 US$'000	2018 US$'000	2017 US$'000	2016 US$'000
Revenue	12,468,599	15,186,036	17,672,407	10,235,675	-	32,923	42,027	48,687	30,848	-
Operating profit/(loss)	81,048	5,262,555	7,920,949	(1,174,276)	(2,450,453)	214	14,564	21,822	(3,539)	(9,569)
Profit/ (loss) before tax	(667,682)	3,823,338	6,593,168	(1,990,860)	(2,156,892)	(1,763)	10,581	18,164	(6,000)	(8,423)
Profit/(loss) for the year	320,020	1,251,320	2,935,419	5,089,302	(2,156,892)	845	3,463	8,087	15,338	(8,423)
Total comprehensive income/(loss) for the year	586,657	1,230,700	2,958,226	4,661,053	(3,251,444)	845	3,463	8,087	15,338	(8,423)
Employment of funds										
Non-current assets	18,314,725	19,173,652	22,844,116	23,076,750	14,337,135	47,614	52,887	62,501	64,648	47,336
Net current (liabilities)/assets	(9,305,836)	(9,694,318)	(12,325,389)	7,767,090	1,966,301	(24,193)	(26,740)	(33,722)	21,759	6,492
Non-current liabilities	(4,132,295)	(5,189,397)	(7,459,490)	(30,742,466)	(20,863,115)	(10,743)	(14,314)	(20,409)	(86,123)	(68,882)
Net assets/ (liabilities)	4,876,594	4,289,937	3,059,237	101,374	(4,559,679)	12,678	11,833	8,370	284	(15,054)
Funds employed										
Share capital	2,500	2,500	2,500	2,500	2,500	16	16	16	16	16
Retained earnings/(accumulated deficit)	6,199,023	5,879,003	4,627,683	1,692,627	(3,396,675)	12,662	11,817	8,354	268	(15,070)
Cumulative translation reserve	(1,324,929)	(1,591,566)	(1,570,946)	(1,593,753)	(1,165,504)	-	-	-	-	-
	4,876,594	4,289,937	3,059,237	101,374	(4,559,679)	12,678	11,833	8,370	284	(15,054)

Earnings per share is based on profit after taxation and is computed on the basis of the weighted average number of ordinary shares in issue at each reporting date. Net assets per share is based on the net assets and the number of ordinary shares in issue at the end of each respective year.