
TECHNOLOGY ENHANCED OIL PLC

ANNUAL REPORT
FOR THE PERIOD ENDED
31 DECEMBER 2016

TECHNOLOGY ENHANCED OIL PLC

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TECHNOLOGY ENHANCED OIL PLC

COMPANY INFORMATION

Country of incorporation	England and Wales
Legal form	Public Limited Company
Directors	M. C. Samuel R. C. A. Leon S. Lamoine P. Levin D. N. Greenwood
Company secretary	D. Smith
Registered number	09847538
Registered office	Salisbury House London Wall London EC2M 5PS
Auditors	BDO LLP 55 Baker Street London W1U 7EU
Bankers	Union Bancaire Privee, UBP SA Rue du Rhone 96-98 CP1320 1211 Geneva 1 Switzerland
Solicitors	Druces LLP Salisbury House London Wall London EC2M 5PS

TECHNOLOGY ENHANCED OIL PLC

GROUP STRATEGIC REPORT FOR THE PERIOD ENDED 31 DECEMBER 2016

Introduction

The Directors of the Company and its subsidiary undertakings (together, "the Group") present their Strategic Report for the period ended 31 December 2016.

Incorporation

The Company was incorporated on 29 October 2015. The accounts have been prepared from this date to 31 December 2016.

Principal activities

The Group's principal activity is the acquisition, operation and development of conventional mature oil producing properties. Its main area of operational activity is in the United States of America.

Organisation Overview

The Board of Directors has the ultimate responsibility for the administration of the Group's affairs. The Board of Directors currently has five members including two independent non-executive Directors of which one is non-executive vice chairman.

The Directors are of the view that the Group should keep to a minimum its own overhead structure and, wherever possible and economic to do so, will look to outsource its personnel requirements. The Group will also make direct outsourcing arrangements with local oil services businesses in the regions in which its acquisitions operate, including key players selected for their track record, their capability to deliver, their ability to source potential neighbouring oil assets and their local footprint.

The services of the executive Directors are provided by the Group's parent company, Iskandia Energy Ltd.

Services provided by Iskandia Energy Ltd

To ensure that the cost of operating the Group's business are kept tightly under control the services of the executive Directors, and other management and administrative services, are provided by Iskandia Energy Ltd under the terms of a Services Agreement.

The services provided include:

- Identification and prioritisation of acquisition targets.
- Conducting due diligence.
- Conducting negotiations with potential sellers.
- Selection of appropriate EOR technologies.
- Selection of third party service providers.
- Management of operations of the acquired assets.
- Monitoring the performance of the Company's subsidiary companies.

TECHNOLOGY ENHANCED OIL PLC

GROUP STRATEGIC REPORT FOR THE PERIOD ENDED 31 DECEMBER 2016

Organisation Overview (continued)

Services provided by Iskandia Energy Operating, Inc.

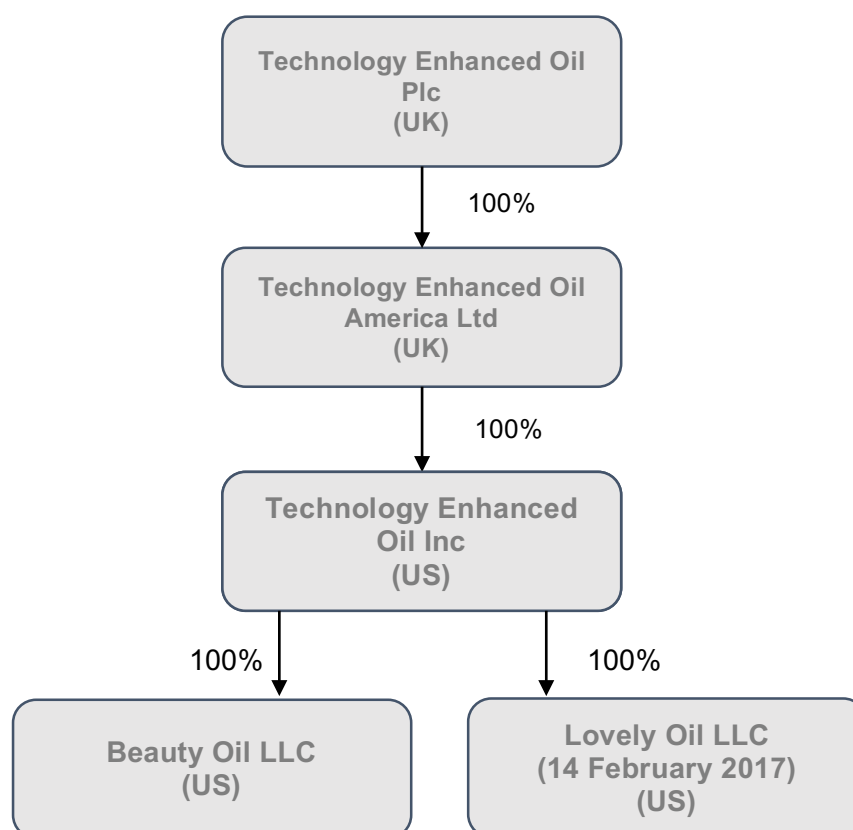
Since 1 August 2016 the Group's oil properties in the East Texas basin have been operated by Iskandia Energy Operating, Inc., a wholly owned subsidiary of Iskandia Energy Limited, the Group's parent company. Iskandia Energy Operating, Inc. is a special purpose vehicle incorporated to operate the Group's oil properties and to apply the appropriate sophisticated enhanced oil recovery technologies.

As at 31 December 2016 Iskandia Energy Operating, Inc. employed 7 professionals dedicated to the Group's services including experienced petroleum engineers, an environment, health and safety expert, seasoned field superintendents, production foremen and pumpers.

The leases referenced are publicly available on the Railroad Commission of Texas website (www.rrc.state.tx.us) under Iskandia Energy Operating, Inc. (Operator number 426961).

Corporate structure

The corporate structure of the Group, which is set out below, reflects the pattern of acquisition by the Group, to the date of approval of the financial statements, and the need, where appropriate, for operational and other reasons, to have incorporated entities in particular territories. In addition to the UK holding company, the Group has operating subsidiaries in the US.



TECHNOLOGY ENHANCED OIL PLC

GROUP STRATEGIC REPORT FOR THE PERIOD ENDED 31 DECEMBER 2016

Aim, Strategy and Business Plan

The Group's aim is to enhance shareholder value by identifying and acquiring producing on-shore conventional oil field assets in North America and to improve the production levels of those assets by the application of a range of sophisticated enhanced oil recovery technologies.

The selected technologies are already field-proven and offer an optimal combination of low implementation cost and outstanding results when correctly applied to specific situations and circumstances. Indeed, a meaningful part of the projected return stream of the strategy relies upon the ability to fine-tune the criteria selection process; by marrying the knowledge of the available oil technologies with precisely which oil assets to acquire in order to maximise the upside and returns potential.

The advanced technologies contemplated by the Group include:

- Non-chemical stimulation technologies such as plasma pulse, ultrasonic or seismic stimulation;
- Water management technologies such as advanced chemical water-control, nanosilicones surfactants, downhole water separation pumps, uphole water management or surface water treatment;
- Logging-data collection technologies such as advanced logging, downhole camera or sonic-based event identification; and
- Other technologies such as radial drilling, field modelisation or paraffin remediation.

The Group's objective is to acquire quality producing North American assets and apply technological enhancements, in order to generate cash flows and attractive returns despite the current oil price environment.

Business review

During this first reporting period the Group has successfully started its funding and acquisition activities. The Group reported a loss for the period of \$3,025,924. This loss reflects the initial start-up costs of the Company and the Group, the successful fund raisings and the costs of identifying and acquiring suitable oil field assets in accordance with the Group's aims.

Funding

US\$ 35,620,000 of mandatorily convertible bonds have been issued in four successive tranches (see further detail in Note 22 to the Consolidated Financial Statements).

Acquisitions

The first acquisition was completed on 15 June 2016 in the East Texas basin located in Navarro County. The properties acquired comprise 52 wells. Since acquisition 26 of these wells have been producing. The wells are located eight miles southeast of the city of Corsicana, TX, on a total of 14 leases, covering an area of approximately 2,500 acres.

This oilfield was discovered in 1895 with shallow production generally more than 1,250 feet from the surface. There were several development periods that were significant, including the shallow gas zones after 1900, the Woodbine formation in 1923, and the Austin Chalk in the early 2000's. The oilfield covers a total area of 9,900 acres.

Since acquisition of the properties the Group has been focused on implementing its enhancement program. The productive formations in the leases are mainly the Woodbine and Austin Chalk formations. The development programme for the East Texas basin properties includes a program of workover enhancement, water injection increases and EOR stimulation. The cost of this enhancement is shown as additions to oil and gas assets in Note 15 to Consolidated Financial Statements.

At 31 December 2016, the East Texas basin properties, which are the only oil assets held within Beauty Oil LLC, have produced 13,700 barrels of oil (since 1 June 2016) at an average of 64 barrels per day and 99.0% average water-cut rate.

TECHNOLOGY ENHANCED OIL PLC

GROUP STRATEGIC REPORT FOR THE PERIOD ENDED 31 DECEMBER 2016

Future developments

The Group continues to seek suitable acquisitions of additional properties in Texas, USA and neighboring states. The Directors remain confident that the current economic and political climate will, in addition to the acquisition completed early in 2017 (see subsequent events on page 8 for further details), offer further opportunities to acquire assets with the potential for improved performance in accordance with the Group's overall strategy.

Key Performance Indicators ("KPI's")

The Board regularly reviews the KPI's of the business and the Group's progress towards achieving its objectives.

The key performance indicators monitored by the Board and senior management in 2016 included:

- Gross barrels produced reported internally and sales on a monthly basis;
- West Texas Intermediate and realised oil prices monitored on a regular basis;
- Performance of wells against operating costs;
- Actual capital expenditures including acquisitions against budget;
- Funds raised through the issue of Convertible Bonds;
- Cash balances and management;
- Earnings before interest, tax, depreciation, amortisation and exceptional items;
- Minimising the effect of the Group's activities on the environment;
- Maintaining high health and safety standards.

During the period ended 31 December 2016, the KPI's were as follows:

- Total gross oil sold for the year ended 31 December 2016 amounted to 13,700 gross barrels of oil for the entire property and 9,700 net for the Group's share after royalties, severance taxes and minority working interests;
- The average sales price per barrel in 2016 was US\$45;
- Cash on hand as at 31 December 2016 was US\$28.9 million;
- Total lease operating costs for the period ended 31 December 2016 were US\$0.59 million gross and US\$0.54 million net for the Group's share or an equivalent to US\$44 per gross barrel sold (US\$56 net);
- The Company successfully raised US\$35.62 million through the issue of mandatorily convertible bonds during the period;
- The Group acquired production assets in Texas for a consideration of US\$1.24 million (further details of this acquisition are set out in Note 26 to the Consolidated Financial Statements). Capital expenditures on these assets for 2016 totalled US\$0.82 million;
- The Group's deficit before interest, tax, depreciation, amortisation and exceptional items was US\$2.28 million.
- The Group has taken environmental considerations into account during planning and implementation of its oil operations.
- There were no injuries or breaches of health and safety regulations reported during the period.

Responsible Investment Policy

The Group has entered into an Environmental, Social and Governance (ESG) policy.

The Directors consider that the Group is part of a new generation of E&P companies within the oil sector that are both sensitive and sympathetically disposed towards ensuring all environmental, social and sustainability issues are effectively managed and their impact minimized as much as practicable. Bridging the gap within the gradual transition phase from fossil fuels and renewable energies means operating in a responsible manner and giving preference towards strategies and techniques which more efficiently exploit the existing reservoirs and oilfields versus focusing upon deeper offshore oilfields and reserves or else deploying and implementing destructive fracking techniques.

**GROUP STRATEGIC REPORT
FOR THE PERIOD ENDED 31 DECEMBER 2016**

Responsible Investment Policy (continued)

The Group sees itself as something of a pioneer in revising the traditional business model of oil production, by acquiring controlling interests in conventional onshore assets of requisite quality from (financially) distressed oil companies; and thereafter in having them operated by highly qualified teams to deploy selective innovative technology whilst proven enhancement and extraction technologies to improve yield and output and thereby extending the life expectancy of these oilfields.

The Group's ESG policy includes guidelines and commitments to sustainable development, a focus on health and safety and transparent corporate governance.

Financial Risk Management and Objectives

The Company uses various financial instruments including cash, equity shares, convertible bonds, intercompany loan notes, and items such as receivables and payables that arise directly from its operations. The existence of these financial instruments may expose the Company to financial risks, which are described in Note 25 to the Consolidated Financial Statements.

Principal Risks and Uncertainties

The Directors are responsible for the effectiveness of the Company's risk management activities and internal control processes. As a participant in the oil and gas production industry, the Group is exposed to a wide range of risks and uncertainties in the conduct of its operations. Set out below are the principal risks and uncertainties that may affect performance. Such risks and uncertainties are not intended to be presented in any order of priority. In addition, the risks set out below are not exhaustive and additional risks and uncertainties, not presently known to the Directors, or which the Directors currently deem immaterial, may arise or become material in the future. The Directors and senior management have significant experience and continually take steps to mitigate and review risks where possible and reasonably practicable. Any of the risks set out below, as well as any other risks and uncertainties referred to in this annual report, could have a material adverse effect on business performance.

Financial risks

- Oil price movements
- Cost inflation
- Inadequate capital expenditure estimates
- Adverse taxation legislative changes
- Third party counterparty credit risk
- Adverse foreign exchange movements
- Insurances may not cover all liabilities
- Contractual exposure

Operational risks

- Failure to identify and acquire producing on-shore conventional oil field assets
- Failure of the Group's technology to improve the production levels of oil field assets acquired
- Production decline
- Loss of key personnel
- Delay and cost overrun on work programs
- Health, Safety and Environmental incidents
- Poor or sub-commercial reservoir performance
- Failure of equipment or third party services
- Leasehold expiries or failure to meet terms and conditions for maintenance of leases
- Failure to keep pace with technological advances
- Failure to comply fully with local, state and federal industry regulations
- Availability of drilling and production equipment

GROUP STRATEGIC REPORT
FOR THE PERIOD ENDED 31 DECEMBER 2016

Principal Risks and Uncertainties (continued)

Strategic, industry and external risks

- Availability of capital to fund future acquisitions
- A material decline in oil price
- Highly competitive industry with numerous significant, financially-strong participants
- Legislation and regulation may increase industry operating costs and/or reduce demand for hydrocarbons

Of these identified risks, the primary risks and actions taken to mitigate such risks are summarised in more detail below:

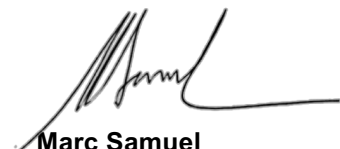
A significant or sustained reduction in oil prices – The Board and management monitor oil prices and analyse events of a business, political or environmental nature that might affect future prices. Whilst the Board and Management consider that based on current production levels the cost of hedging this risk would outweigh the benefits they continue to monitor production levels and will at the appropriate time take steps to mitigate this risk by executing oil derivative contracts.

Failure of the Group's enhancement technologies – The Board and management consider that the use of innovative technologies is a key driver of the development and the performance of the Group. Therefore, a great deal of attention is deployed to secure capacity and pricing to both conventional and disruptive technologies and to identify competitors for each of the technologies types used to maintain and enhance the production. The Group may consider mitigating the risk by developing its own tools to secure the access to top disruptive technologies.

Production is not sustainable – Production by well is monitored on a daily basis. The majority of the Group's wells have oil reserve potential in a number of different zones and at different depths. If production from a particular formation falls below commercially acceptable levels, the Group has two primary options: workover or further stimulation of the formation to re-establish oil-flow, or to close the non-producing formation and come up the well-bore to test another zone. Once a well is no longer commercially viable in any form the well is plugged and abandoned.

Failure to identify and acquire and acquire producing on-shore conventional oil field assets - As noted above the Group successfully completed its first acquisition in June 2016. In addition, subsequent to the period end the Group has successfully completed a second and larger acquisition of on-shore oil producing assets (further details are set out in Note 29 to the Consolidated Financial Statements). The Group continues to seek suitable acquisitions of additional properties in Texas, USA and neighboring states. The Directors remain confident that the current economic and political climate will offer further opportunities to acquire assets with the potential for improved performance in accordance with the Group's overall strategy.

This report was approved by the board on 29 June 2017 and signed on its behalf by:



Marc Samuel
Director

TECHNOLOGY ENHANCED OIL PLC

DIRECTORS' REPORT FOR THE PERIOD ENDED 31 DECEMBER 2016

The Directors present their report and the financial statements for the period ended 31 December 2016.

Results and dividends

During this first reporting period the Group has successfully started its funding and acquisition activities. The Group reported a loss for the period of \$3,025,924. This loss reflects the initial start-up costs of the Company and the Group, the successful fund raisings and the costs of identifying and acquiring suitable oil field assets in accordance with the Group's aims.

No dividend is proposed for the period ended 31 December 2016.

Directors

The Directors who served during the period were:

M. C. Samuel	(appointed 29 October 2015)
R. C. A. Leon	(appointed 13 January 2016)
S. Lamoine	(appointed 29 October 2015)
P. Levin	(appointed 13 January 2016)
D. N. Greenwood	(appointed 23 September 2016)

Subsequent events

On 28 February 2017 the Group purchased additional oil and gas assets for \$21,975,537 which are held by a newly created wholly owned subsidiary, Lovely Oil, LLC. The purchase was funded by cash held by the Group. These Delaware basin properties are situated in Loving, Pecos, Ector, Winkler, Crane and Reeves Counties, and located around two main oilfields, Dimmitt and Brooklaw. The properties comprise 257 wells, of which 98 are currently producing. The productive formations in the leases are mainly Delaware and Clear Fork formations, with overall production being 55% oil and 45% gas, with a water cut rate under 95%. The wells are split across six oilfields, across an area of 50 miles West and South of the city of Monahans, TX, on a total of 91 leases, covering an area of approximately 13,200 acres. Further information on this acquisition is given in Note 29 to the Consolidated Financial Statements.

The Group issued a further tranche of 6.00% mandatorily convertible bonds with a conversion date of 15 January 2022 and a nominal value of US\$25,000,000 on 18 April 2017.

TECHNOLOGY ENHANCED OIL PLC

DIRECTORS' REPORT FOR THE PERIOD ENDED 31 DECEMBER 2016

Directors' responsibilities statement

The Directors are responsible for preparing the Group Strategic Report, the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial period. Under that law the Directors have elected to prepare the Group and Company financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Company for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;
- state whether applicable IFRSs as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

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

Disclosure of information to auditors

Each of the persons who are directors at the time when this Directors' Report was approved has confirmed that:

- so far as that director is aware, there is no relevant audit information of which the Company's auditors are unaware; and
- that director has taken all the steps that ought to have been taken as a director in order to be aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

TECHNOLOGY ENHANCED OIL PLC

DIRECTORS' REPORT FOR THE PERIOD ENDED 31 DECEMBER 2016

Website publication

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

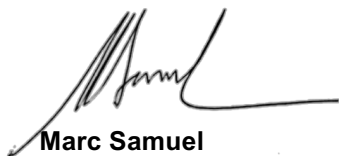
Matters covered in the Strategic Report

The Strategic Report on pages 2 to 7 contains details of the principal activities of the Group and includes a business review which provides information on the development of the Group's business during the period, together with details of the risks and uncertainties that affect the Group's business and future developments.

Auditors

A resolution to re-appoint BDO LLP as auditor for the ensuing period will be proposed at the Annual General Meeting.

This report was approved by the board on 29 June 2017 and signed on its behalf by:



Marc Samuel
Director

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF TECHNOLOGY ENHANCED OIL PLC

We have audited the financial statements of Technology Enhanced Oil PLC for the period ended 31 December 2016, which comprise the Consolidated Statement of Comprehensive Income, the Consolidated and Company Statement of Financial Position, the Consolidated and Company Statement of Cash Flows and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent Company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

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

Respective responsibilities of Directors and Auditors

As explained more fully in the Directors' Responsibilities Statement, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Financial Reporting Council's Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the FRC's website at www.frc.org.uk/auditscopeukprivate.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Group's and the parent Company's affairs as at 31 December 2016 and of the Group's loss for the period then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent Company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the strategic report and the Directors' Report for the financial period for which the financial statements are prepared is consistent with the financial statements.

TECHNOLOGY ENHANCED OIL PLC

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF TECHNOLOGY ENHANCED OIL PLC

Matters on which we are required to report by exception

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

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

BDO LLP

Anne Sayers (senior statutory auditor)

For and on behalf of BDO LLP, statutory auditor

London

United Kingdom

Date

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

TECHNOLOGY ENHANCED OIL PLC

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE PERIOD ENDED 31 DECEMBER 2016**

	Note	Period from 29 October 2015 to 31 December 2016 \$
Revenue	6	434,619
Cost of sales		(920,240)
Gross loss		(485,621)
Administrative expenses		(1,924,216)
Operating loss	7	(2,409,837)
Finance income	11	56,014
Finance cost	12	(672,101)
Loss before tax		(3,025,924)
Tax	13	-
Loss for the period		(3,025,924)
Other comprehensive income		-
Total comprehensive loss for the period		(3,025,924)
Total comprehensive loss attributable to:		
Owners of the parent company		(3,025,924)
Basic and diluted loss per share (\$ per share)	14	(14.73)

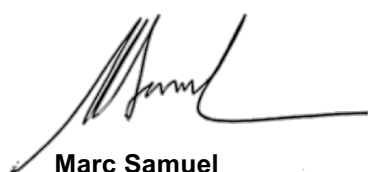
TECHNOLOGY ENHANCED OIL PLC

REGISTERED NUMBER:09847538

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2016

Assets	Note	2016 \$
Non-current assets		
Intangible oil and gas assets	15	2,688,194
Amounts owed by affiliated company	17	356,240
		3,044,434
Current assets		
Trade and other receivables	17	305,941
Cash and cash equivalents	18	28,898,175
		29,204,116
Total assets		32,248,550
Equity and Liabilities		
Equity		
Share capital	19	76,585
Capital contribution	21	4,542
Accumulated deficit	21	(3,025,924)
Convertible debt reserve	21	26,132,173
Total equity attributable to owners of the parent company		23,187,376
Non-current liabilities		
Long term borrowings	22	5,409,050
Provisions	23	771,768
Total non-current liabilities		6,180,818
Current liabilities		
Trade and other payables	24	743,156
Short term borrowings	22	2,137,200
Total current liabilities		2,880,356
Total liabilities		9,061,174
Total equity and liabilities		32,248,550

The financial statements were approved and authorised for issue by the board on 29 June 2017 and were signed on its behalf by:



Marc Samuel
Director

TECHNOLOGY ENHANCED OIL PLC

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE PERIOD ENDED 31 DECEMBER 2016**

	Share Capital \$	Capital contribution \$	Convertible debt reserve \$	Accumulated deficit \$	Total equity \$
On incorporation	-	-	-	-	-
Comprehensive loss for the period	-	-	-	(3,025,924)	(3,025,924)
Total comprehensive loss for period	-	-	-	(3,025,924)	(3,025,924)
Issue of share capital	76,585	-	-	-	76,585
Issue of convertible debt	-	-	26,132,173	-	26,132,173
Recognition of share based payments awarded by parent company	-	4,542	-	-	4,542
At 31 December 2016	76,585	4,542	26,132,173	(3,025,924)	23,187,376

TECHNOLOGY ENHANCED OIL PLC

**CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE PERIOD ENDED 31 DECEMBER 2016**

	Note	2016 \$
Cash flows from operating activities		
Loss before income tax for the period		(3,025,924)
Adjustments to reconcile profit before tax to net cash flows:		
Depreciation of tangible assets	15	131,670
Finance cost	12	672,101
Finance income	11	(56,014)
Equity settled share based payments	10	4,542
Increase in trade and other receivables		(95,806)
Increase in trade and other payables		144,215
Increase in net amount owed to affiliated company		388,806
Net cash flows from operating activities		(1,836,410)
Cash flows from investing activities		
Acquisition of oil and gas business	26	(1,237,500)
Expenditures on oil and gas assets	15	(824,746)
Long term advances to affiliated company	17	(356,240)
Interest received	11	56,014
Net cash used in investing activities		(2,362,472)
Cash flows from financing activities		
Proceeds from the issue of share capital	19	76,585
Proceeds from long term borrowing (net of issue costs)		33,672,822
Interest paid		(652,350)
Net cash from financing activities		33,097,057
Net increase in cash and cash equivalents		28,898,175
Cash and cash equivalents at beginning of period		-
Cash and cash equivalents at the end of period	18	28,898,175
Comprising:		
Cash at bank and in hand		3,893,057
Short-term deposits		25,005,118
		28,898,175

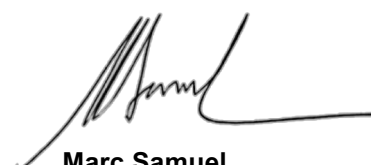
TECHNOLOGY ENHANCED OIL PLC**REGISTERED NUMBER:09847538**

**COMPANY STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2016**

Assets	Note	2016 \$
Non-current assets		
Investments in equity instruments	16	51,000
Amounts owed by group companies	17	4,025,282
		4,076,282
Current assets		
Trade and other receivables	17	21,197
Cash and cash equivalents	18	28,357,202
		28,378,399
Total assets		32,454,681
Equity and Liabilities		
Equity		
Share capital	19	76,585
Capital contribution	21	4,542
Accumulated deficit	21	(1,444,974)
Convertible debt reserve	21	26,132,173
Total equity attributable to owners of the company		24,768,326
Non-current liabilities		
Long term borrowings	22	5,409,050
Total non-current liabilities		5,409,050
Current liabilities		
Trade and other payables	24	140,105
Short term borrowings	22	2,137,200
Total current liabilities		2,277,305
Total liabilities		7,686,355
Total equity and liabilities		32,454,681

The Company reported a loss after taxation for the period of \$1,444,974.

The financial statements were approved and authorised for issue by the board on 29 June 2017 and were signed on its behalf by:



Marc Samuel
Director

TECHNOLOGY ENHANCED OIL PLC

**COMPANY STATEMENT OF CHANGES IN EQUITY
FOR THE PERIOD ENDED 31 DECEMBER 2016**

	Share Capital \$	Capital contribution \$	Convertible debt reserve \$	Accumulated deficit \$	Total equity \$
On incorporation	-	-	-	-	-
Comprehensive loss for the period	-	-	-	(1,444,974)	(1,444,974)
Total comprehensive loss for period	-	-	-	(1,444,974)	(1,444,974)
Issue of share capital	76,585	-	-	-	76,585
Issue of convertible debt	-	-	26,132,173	-	26,132,173
Recognition of share based payments awarded by parent company	-	4,542	-	-	4,542
At 31 December 2016	76,585	4,542	26,132,173	(1,444,974)	24,768,326

TECHNOLOGY ENHANCED OIL PLC

**COMPANY STATEMENT OF CASH FLOWS
FOR THE PERIOD ENDED 31 DECEMBER 2016**

	Note	2016 \$
Cash flows from operating activities		
Loss before income tax for the period		(1,444,974)
<i>Adjustments to reconcile profit before tax to net cash flows:</i>		
Finance cost		657,951
Finance income		(79,809)
Equity settled share based payments		4,542
Increase in trade and other receivables		(21,197)
Increase in trade and other payables		140,105
Net cash flows from operating activities		<u>(743,382)</u>
Cash flows from investing activities		
Investments in subsidiaries	16	(51,000)
Advances to subsidiary companies	17	(4,025,282)
Interest received		79,809
Net cash used in investing activities		<u>(3,996,473)</u>
Cash flows from financing activities		
Proceeds from the issue of share capital	19	76,585
Proceeds from long term borrowing (net of issue costs)		33,672,822
Interest paid		(652,350)
Net cash used from financing activities		<u>33,097,057</u>
Net increase in cash and cash equivalents		28,357,202
Cash and cash equivalents at beginning of period		-
Cash and cash equivalents at the end of period		<u>28,357,202</u>
Cash and cash equivalents at the end of the period comprise:		
Cash at bank and in hand and short term deposits	18	28,357,202
Comprising:		
Cash at bank and in hand		3,352,084
Short-term deposits		25,005,118
		<u>28,357,202</u>

TECHNOLOGY ENHANCED OIL PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2016

1. Corporate information

The consolidated financial statements of the Group, which comprise Technology Enhanced Oil Plc and all its subsidiaries, for the period from the incorporation of the Company on 29 October 2015 to 31 December 2016, were authorised for issue in accordance with a resolution of the Directors dated 29 June 2017. Technology Enhanced Oil Plc is a public limited company incorporated and domiciled in England and Wales. The registered office address is located at Salisbury House, London Wall, London, EC2M 5PS.

The Group's principal activity is the acquisition, operation and development of conventional mature oil producing properties. Its main area of operational activity is in the United States of America.

2. Basis of preparation

The consolidated financial statements, which are presented in US Dollars, have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted and endorsed by the European Union (EU), and the Companies Act 2006 applicable to companies reporting under IFRS. These comprise standards and interpretations approved by the International Accounting Standards Board (IASB) that remain in effect and to the extent that they have been adopted by the EU.

These consolidated financial statements represent the first annual financial statements of the Company and its subsidiaries prepared in accordance with IFRS, as issued by the ISAB. The Company has adopted IFRS in accordance with IFRS 1, "First-time Adoption of International Financial Reporting Standards". The first date at which IFRS was applied was 29 October 2015. In accordance with IFRS, the Company has retrospectively applied all effective IFRS standards as of 31 December 2016.

The consolidated financial statements have been prepared on the historical cost basis, unless accounting standards require an alternative measurement basis. Where there are assets and liabilities calculated on a different basis, this fact is disclosed in either the relevant accounting policy or in the notes to the financial statements.

The Company has elected to take advantage of the exemption in section 408 of the Companies Act 2006 from disclosing its individual Statement of Comprehensive Income. For the period ended 31 December 2016 the Company reported a loss after taxation of \$1,444,974.

The preparation of financial statements in compliance with IFRS requires the use of certain critical accounting estimates. It also requires Group management to exercise judgment in the most appropriate application in applying the Group's accounting policies. The areas where significant judgments and estimates have been made in preparing the financial statements and their effect are disclosed in Note 4.

3. Going concern

The Directors have considered the factors relevant to support a statement of going concern.

In assessing whether the going concern assumption is appropriate, the Directors considered the Group cash flow forecasts under various scenarios, identifying risks and mitigating factors and ensuring the Group has sufficient funding to meet its current commitments as and when they fall due.

The Directors have a reasonable expectation that the Group will continue in operational existence for a period of 12 months from the date of signing these financial statements and have therefore used the going concern basis in preparing the financial statements.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 DECEMBER 2016

4. Critical accounting judgements and key sources of estimation uncertainty

The preparation of financial information in conformity with International Financial Reporting Standards requires management to make estimates and judgements that affect the reported amounts of assets and liabilities as well as the disclosure of contingent assets and liabilities at the period-end date and the reported amounts of revenues and expenses during the reporting period.

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were:

4.1 Reserve estimates

Reserves are estimates of the amount of hydrocarbons that can be economically and legally extracted from the Group's oil and gas properties. The Group estimates its commercial reserves and resources based on information compiled by appropriately qualified persons relating to the geological and technical data on the size, depth, shape and grade of the hydrocarbon body and suitable production techniques and recovery rates. Commercial reserves are determined using estimates of oil and gas in place, recovery factors and future commodity prices, the latter having an impact on the total amount of recoverable reserves. Future development costs are estimated using assumptions as to the number of wells required to produce the commercial reserves, the cost of such wells and associated production facilities, and other capital costs. The current long-term oil price assumption used in the estimation of commercial reserves is US\$40.93/bbl. The carrying amount of oil and gas development and production assets at 31 December 2016 is shown in Note 15.

As the economic assumptions used may change and as additional geological information is obtained during the operation of a field, estimates of recoverable reserves may change. Changes in reported reserves may affect the Group's reported financial position and result in a number of ways including:

- Asset carrying values, detailed in Note 15, may be affected by possible impairment due to adverse changes in estimated future cash flows and the commercial viability of reserves.
- Depreciation, depletion and amortisation, detailed in Note 7, that is charged in the Statement of Comprehensive Income may change where such charges are determined by the unit of production basis, or where the useful economic life of asset changes.
- Provisions for decommissioning a well may change as a result of revisions to the timing of such decommissioning.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 DECEMBER 2016

4. Critical accounting judgements and key sources of estimation uncertainty (continued)

4.2 Impairment

The Group assesses each asset at each reporting period to determine whether any indication of impairment exists.

Oil and gas assets

Where an indicator of impairment to an oil and gas asset exists, a formal estimate of the recoverable amount is made, which is considered to be the higher of the fair value less costs of disposal (FVLCD) and value in use (VIU). The assessments require the use of estimates and assumptions such as long-term oil prices (considering current and historical prices, price trends and related factors), discount rates, operating costs, future capital requirements, decommissioning costs, exploration potential, reserves (and operating performance (which includes production and sales volumes)). These estimates and assumptions are subject to risk and uncertainty. Therefore, there is a possibility that changes in circumstances will impact these projections, which may impact the recoverable amount of assets.

Other assets

Other assets are considered for impairment where such indicators exist using value in use calculations or fair value and recoverability estimates. The use of these methods similarly requires the estimation of future cash flows and the choice of a discount rate in order to calculate the present value of the cash flows.

4.3 Business combinations

In determining the fair values of certain assets/liabilities acquired/assumed in business combinations management uses estimates that are rely on information compiled by appropriately qualified persons. These estimates include assumptions as to:

- Expected future oil prices;
- Expected future operating costs;
- The amount of hydrocarbons that can be economically and legally extracted;
- The expected operating lives of the assets acquired;
- The expected costs to cap and plug a well at the end of its operating life.

Further details of business combinations in the period are set out in Note 26.

5. Summary of significant accounting policies

5.1 Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries) made up to 31 December each period. Control is achieved when a company is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The results of subsidiaries acquired or disposed of during the period are included in the Statement of Comprehensive Income from the effective date of acquisition or up to the effective date of disposal, as appropriate. Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by other members of the Group. All significant inter-company transactions and balances between Group entities are eliminated on consolidation.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 DECEMBER 2016

5. Summary of significant accounting policies (continued)

5.2 Segmental reporting

The Group's activities consist of one class of business - the acquisition, operation and development of conventional mature oil producing properties.

5.3 Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable, net of discounts, rebates and sales related taxes. The following criteria must also be met before revenue is recognised:

Revenue from crude oil sales

The Group recognises oil and gas sales when delivery to the purchaser has occurred and title has transferred. This occurs when production has been delivered to a pipeline or a transport vehicle.

Interest income

Revenue is recognised as interest accrues using the effective interest method.

5.4 Foreign currency translation

Functional and presentation currency

The Company's and its subsidiaries' functional and presentational currency is US Dollars.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the spot exchange rates at the dates of the transactions.

At each period end foreign currency monetary items are translated using the closing rate. Non-monetary items measured at historical cost are translated using the exchange rate at the date of the transaction and non-monetary items measured at fair value are measured using the exchange rate when fair value was determined.

Foreign exchange gains and losses resulting from the settlement of transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the Statement of Comprehensive Income.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the Statement of Comprehensive Income within 'finance income or costs'. All other foreign exchange gains and losses are presented in the Statement of Comprehensive Income under the heading to which they relate.

The exchange rate to US\$1 for Sterling at 31 December 2016 was 0.813 and the average rate during the period was 0.739.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 DECEMBER 2016

5. Summary of significant accounting policies (continued)

5.5 Share based payments

In accordance with IFRS 2 "Share-based Payments", the Group measures the fair value of equity settled transactions with employees and Directors at the grant date of the equity instruments. The fair value is calculated using an appropriate valuation model and requires assumptions regarding dividend yields, risk-free interest rates, share price volatility and expected life of an employee or Director share warrant. Further details can be found in Note 20. The arising expense is charged to the statement of comprehensive income on a straight-line basis over the expected vesting period.

Share warrants granted to employees and Directors of the Group by the Group's ultimate parent company, Iskandia Energy Limited, are valued at the date of grant using the Black-Scholes option pricing model and are charged to the statement of comprehensive income over the vesting period of the warrant. The corresponding credit is recognised in equity as a capital contribution from the parent company.

5.6 Taxation

Taxation expense for the period comprises current and deferred tax recognised in the reporting period. Tax is recognised in the Statement of Comprehensive Income.

Current tax

Current tax is the amount of tax payable in respect of the taxable profit for the period or prior periods. Tax is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the period end.

Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred tax

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit or loss.

Deferred tax assets are recognised for deductible temporary differences that exist only where it is probable that taxable profits will be generated against which the carrying value of the deferred tax asset can be recovered.

Deferred tax liabilities are recognised for all taxable temporary differences except in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint operations where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

A deferred tax asset or liability is not recognised if a temporary difference arises on initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 DECEMBER 2016

5. Summary of significant accounting policies (continued)

5.6 Taxation (continued)

Revenue-based taxes

The Group's subsidiaries are subject to revenue-based taxes such as the Texas Gross Margin Tax and production tax. These taxes are based on physical quantities produced or on a percentage of revenue. As such these taxes do not meet the characteristics of an income tax as set out in IAS 12 and are considered to be a tax on extractive activities and so have been deducted from revenue.

5.7 Oil and gas assets

Oil and gas properties

The Group uses the successful efforts method of accounting for oil and gas properties. Costs to acquire mineral interests in oil and gas properties are capitalised, where the properties are considered to be economically viable.

Capitalised costs of producing oil and gas properties, after considering estimated residual salvage values, are depreciated and depleted by the unit-of production method.

Subsequent costs are included in the asset's carrying amount only when it is probable that future economic benefits associated with the item will flow to the Company and the costs can be measured reliably. All other costs, including repairs and maintenance costs, are charged to the income statement in the period in which they are incurred.

On the sale or retirement of a complete unit of proved property, the cost and related accumulated depreciation, depletion and amortisation are eliminated from the accounts, and the resultant gain or loss is recognised.

Depreciation of producing assets

The net book values of producing assets are depreciated on a field-by-field basis using the unit-of-production method by reference to the ratio of production in the year and the related commercial (proved and probable) reserves of the field, taking into account future development expenditures necessary to bring those reserves into production.

Producing assets are generally grouped with other assets that are dedicated to serving the same reserves for depreciation purposes.

Impairment of development and production assets

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

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 DECEMBER 2016

5 Summary of significant accounting policies (continued)

5.7 Oil and gas assets (continued)

Impairment of development and production assets (continued)

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

Acquisitions, asset purchases and disposals

Acquisitions of oil and gas properties are accounted for under the acquisition method when the assets acquired and liabilities assumed constitute a business.

Transactions involving the purchase of an individual field interest, or a group of field interests, that do not constitute a business, are treated as asset purchases irrespective of whether the specific transactions involve the transfer of the field interests directly or the transfer of an incorporated entity. Accordingly, no goodwill and no deferred tax gross up arises, and the consideration is allocated to the assets and liabilities purchased on an appropriate basis.

Proceeds on disposal are applied to the carrying amount of the specific intangible asset or development and production assets disposed of and any surplus is recorded as a gain on disposal in the Statement of Comprehensive Income.

5.8 Investments in subsidiaries

In the Company's financial statements investments in subsidiaries are measured at cost less accumulated impairment.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 DECEMBER 2016

5 Summary of significant accounting policies (continued)

5.9 Business combinations

Business combinations are accounted for using the acquisition method. The consideration paid in a business combination is measured at the fair value of all elements of the consideration. Acquisition-related costs are recognised in the Statement of Comprehensive Income as incurred.

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

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

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see below), or additional assets or liabilities are recognised to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the amounts recognised as of that date.

The measurement period is the period from the date of acquisition to the date the Group obtains complete information about facts and circumstances that existed as of the acquisition date, and is subject to a maximum of one year.

Organisation and start-up costs are expensed as incurred. Organisational expenses include costs incurred to establish the Group's subsidiaries as legal entities.

5.10 Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short term highly liquid investments in debt securities with original maturities of three months or less.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 DECEMBER 2016

5 Summary of significant accounting policies (continued)

5.11 Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

The Group and the Company classifies its financial instruments into one of the categories discussed below, depending on the purpose for which the asset was acquired. The Group and the Company has not classified any of its financial assets as held to maturity, available for sale or at fair value through profit or loss.

Financial assets and liabilities are offset and the net amount reported in the financial statements if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

The accounting policy for each category is as follows:

Financial assets

The Group's and the Company's financial assets comprise cash and cash equivalents, loans (including loans to subsidiaries and affiliates) and receivables.

The Group's receivables primarily consist of loans to affiliates under a revolving credit agreement providing 3-month revolving facilities at Libor 3-month plus 1% margin and trade receivables. The Company's receivables primarily consist of loans to subsidiaries under revolving credit agreements providing 3-month revolving facilities at Libor 3-month plus 1% margin.

These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These assets are initially recognised at fair value plus transaction costs that are directly attributable to their acquisition or issue, and are subsequently carried at amortised cost using the effective interest rate method, less provision for impairment.

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or a part of a group of similar financial assets) is primarily derecognised when either: the rights to receive cash flows from the asset have expired; or the Group has transferred the financial asset and substantially the risks and rewards of ownership of the asset to another party.

Impairment of financial assets

The Group assesses at each reporting date whether there is objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that has occurred since the initial recognition of the asset (an incurred 'loss event') has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments; the probability that they will enter bankruptcy or other financial reorganisation; and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 DECEMBER 2016

5 Summary of significant accounting policies (continued)

5.11 Financial instruments (continued)

Financial liabilities

The Group's financial liabilities include borrowings and trade and other payables.

Borrowings

The Group's borrowings consist of mandatorily convertible bonds. The bonds consist of multiple tranches under one bond arrangement. Each tranche of the bond issued constitute direct, unconditional, unsubordinated obligations of the Company and rank pari passu and rateably, without preference amongst themselves and equally with all other existing and future obligations of the Company. The withstanding bond agreement based on the most recent tranche determines a fixed share conversion price for all bondholders and therefore determines the number of shares each bondholder is entitled to. The total equity interest in the Company the bondholders are entitled to is capped at 80% of the Company's equity. As such the number of shares the bondholder group is entitled to is fixed and as there is a fixed share conversion ratio within the withstanding bond agreement the bond is therefore treated as a mandatorily convertible compound financial instrument.

The net proceeds received from the issue of convertible bonds are split between a liability element and an equity component at the date of issue. The fair value of the liability component is estimated by discounting the interest payments using the prevailing market interest rate for similar non-convertible debt. The difference between the proceeds of issue of the convertible bonds and the fair value assigned to the liability component, representing the embedded value of the equity of the Group after conversion of the liability, is included in equity and is not re-measured. The liability component is carried at amortised cost.

Issue costs are apportioned between the liability and equity components of the convertible bonds based on their relative carrying amounts at the date of issue. The portion relating to the equity component is charged directly against equity.

The interest expense on the liability component is calculated by applying the prevailing market interest rate, at the time of issue, for similar non-convertible debt to the liability component of the instrument. The difference between this amount and the interest paid is added to the carrying amount of the convertible bonds.

Trade and other payables

The Group's trade and other payables are initially recognised at fair value and subsequently carried at amortised cost using the effective interest method.

Derecognition

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms or the terms of an existing liability are substantially modified, such an exchange is treated as the derecognition of the original liability and the recognition of a new liability.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 DECEMBER 2016

Summary of significant accounting policies (continued)

5.11 Financial instruments (continued)

Classification of financial instruments issued by the Company

Under IAS 32, financial instruments issued by the Company are treated as equity only to the extent that they meet the following two conditions:

- they include no contractual obligations upon the Company (or Group as the case may be) to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the Company (or Group); and
- where the instrument will or may be settled in the Company's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the Company's own equity instruments or is a derivative that will be settled by the Company exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

To the extent that this definition is not met, the proceeds of issue are classified as a financial liability. Where the instrument so classified takes the legal form of the Company's own shares, the amounts presented in these financial statements as share capital and share premium account exclude amounts in relation to those shares.

5.12 Provisions

General

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Group expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognised as a separate asset, but only when the reimbursement is virtually certain. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as part of finance costs in the Statement of Comprehensive Income.

Decommissioning liability

The Group recognises a decommissioning liability where it has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount of obligation can be made.

The obligation generally arises when the asset is acquired, installed or the ground/environment is disturbed at the field location. When the liability is initially recognised, the present value of the estimated costs is capitalised by increasing the carrying amount of the related oil and gas assets to the extent that it was incurred by the development/construction of the field.

Changes in the estimated timing or cost of decommissioning are dealt with prospectively by recording an adjustment to the provision and a corresponding adjustment to oil and gas assets.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 DECEMBER 2016

5 Summary of significant accounting policies (continued)

5.12 Provisions (continued)

Decommissioning liability (continued)

Any reduction in the decommissioning liability and, therefore, any deduction from the asset to which it relates, may not exceed the carrying amount of that asset. If it does, any excess over the carrying value is taken immediately to the Statement of Comprehensive Income.

If the change in estimate results in an increase in the decommissioning liability and, therefore, an addition to the carrying value of the asset, the Group considers whether this is an indication of impairment of the asset as a whole, and if so, tests for impairment. If, for mature fields, the estimate for the revised value of oil and gas assets net of decommissioning provisions exceeds the recoverable value, that portion of the increase is charged directly to expense. Over time, the discounted liability is increased for the change in present value based on the discount rate that reflects current market assessments and the risks specific to the liability. The periodic unwinding of the discount is recognised in the statement of comprehensive income as a finance cost. The Group recognises neither the deferred tax asset in respect of the temporary difference on the decommissioning liability nor the corresponding deferred tax liability in respect of the temporary difference on a decommissioning asset.

5.13 Related party transactions

The Group discloses transactions with related parties which are not wholly owned within the same group. It does not disclose transactions with members of the same group that are wholly owned. The Company discloses transactions with related parties, including subsidiary companies. Transactions of a similar nature are aggregated unless, in the opinion of the Directors separate disclosure is necessary to understand the effect of the transactions on the financial statements.

5.14 Standards, Amendments and Interpretations to existing standards that are not yet effective and have not been early adopted by the Group

At the date of authorisation of these financial statements, the following Standards and interpretations which have not been applied in these financial statements were in issue but not yet effective (and, in some cases, had not yet been adopted by the European Union) (standards not expected to have any impact on the Group or Company are not included):

IFRS 9 - Financial Instruments: Classification and Measurement (effective 1 January 2018)
IFRS 15 - Revenue from Contracts with Customers (effective 1 January 2018)
IFRS 16 - Leases (effective 1 January 2019)*

*Not yet adopted by the EU.

IFRS 15 is intended to introduce a single framework for revenue recognition and clarify principles of revenue recognition. This standard modifies the determination of when to recognise revenue and how much revenue to recognise. The core principle is that an entity recognises revenue to depict the transfer of promised goods and services to the customer of an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Management are currently assessing the impact of this standard.

TECHNOLOGY ENHANCED OIL PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2016

5 Summary of significant accounting policies (continued)

5.14 Standards, Amendments and Interpretations to existing standards that are not yet effective and have not been early adopted by the Group (continued)

IFRS 16 introduces a single lease accounting model. This standard requires lessees to account for all leases under a single on-balance sheet model. Under the new standard, a lessee is required to recognise all lease assets and liabilities on the balance sheet; recognise amortisation of leased assets and interest on lease liabilities over the lease term; and separately present the principal amount of cash paid and interest in the cash flow statement. Management are currently assessing the impact of this standard.

IFRS 9 "Financial instruments" addresses the classification and measurement of financial assets and financial liabilities. The complete version of IFRS 9 was issued in July 2014. It replaces the guidance in IAS 39 that relates to the classification and measurement of financial instruments. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortized cost, fair value through other comprehensive income (OCI) and fair value through profit or loss. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in OCI. There is now a new expected credit loss model that replaces the incurred loss impairment model used in IAS 39. For financial liabilities, there were no changes to classification and measurement except for the recognition of changes in credit risk in other comprehensive income, for liabilities designated at fair value through profit or loss. Contemporaneous documentation is still required but is different to that currently prepared under IAS 39. Management are currently assessing the standard's full impact.

6. Analysis of revenue

Analysis of revenue by category:

	2016
	\$
Revenue from crude oil sales	434,619
	434,619

Analysis of revenue by geography:

	2016
	\$
United States of America	434,619
	434,619

TECHNOLOGY ENHANCED OIL PLC

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 DECEMBER 2016**

7. Operating loss

The operating loss is stated after charging:

	2016
	\$
Depreciation of oil and gas properties	131,670
Acquisition costs (see Note 26)	182,528
Net loss on foreign currency translation	7,605

8 Auditor's remuneration

	2016
	\$
Fees payable to the Group's auditor in respect of:	
Audit of the Company's annual accounts	39,114
Taxation advisory services	50,971

9. Employees

Staff costs, including Directors' remuneration, were as follows:

	2016
	\$
Wages and salaries	82,094
Social security costs	1,412
	83,506

The average number of employees, including the Directors, during the period was as follows:

	2016
	No.
Directors	4
Administration	1
	5

TECHNOLOGY ENHANCED OIL PLC

NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 DECEMBER 2016

10 Directors' remuneration

The Directors' aggregate remuneration in respect of qualifying services were:

	2016
	\$
Fees paid to Directors	535,594
	535,594

The remuneration of the highest paid director was \$261,167.

All fees due to Directors disclosed above are payable by the Group's parent company, Iskandia Energy Limited. Iskandia Energy Limited recharges these fees plus an agreed mark up to the Group.

Key management compensation

Key management includes the Directors and members of senior management. The compensation paid or payable to key management for employee services is shown below:

	2016
	\$
Share based payments	4,542
Fees paid to key management personnel	719,555
	724,097

Fees due to key management personnel includes \$535,594 payable by the Group's parent company, Iskandia Energy Limited. Iskandia Energy Limited recharges these fees plus an agreed mark up to the Group.

11 Finance income

	2016
	\$
Bank interest receivable	56,014

12. Finance costs

	2016
	\$
Interest on convertible bond	657,951
Unwinding of discount	14,150
	672,101

TECHNOLOGY ENHANCED OIL PLC

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 DECEMBER 2016**

13. Tax

	2016 \$
Current tax charge	-
UK Corporation tax	-
Overseas tax	-
Total current tax	-
Deferred tax	
Losses available for offset against future taxable income	-
Total deferred tax	-
Income tax credit	-

Factors affecting tax charge for the period

The tax charge for the year can be reconciled to the loss per the consolidated Statement of Comprehensive Income as follows:

	2016 \$
Loss before income tax	(3,025,924)
Loss before income tax multiplied by the standard rate of corporation tax in the UK of 20%	(605,185)
Effects of:	
Expenses not deductible for tax purposes, including goodwill amortisation	7,122
Different tax rates applied in overseas jurisdictions	(211,814)
Losses carried forward	809,877
Total tax charge for period	-

Deferred tax

Tax losses carried forward have not been recognised at 31 December 2016. Whilst management forecast that taxable profits will be generated in the near future, there is a lack of evidenced profitability to date. Therefore no deferred tax asset has been recognised on these losses as there is no certainty that sufficient profits will arise in future accounting periods from which these losses could be offset. The estimated unrecognised deferred tax asset is \$536,000. Deferred tax assets in respect of tax losses and other deductible temporary difference not recognised in the Company Statement of Financial Position amount to \$294,271.

TECHNOLOGY ENHANCED OIL PLC

NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 DECEMBER 2016

14. Loss per share

Basic loss per share is calculated by dividing the loss attributable to equity holders of the parent company of \$3,025,924 by the weighted average number of ordinary shares in issue during the period together with the potential number of ordinary shares to be issued on conversion of the mandatorily convertible bonds. The basic and the diluted earnings per share are the same as there are no instruments that have a dilutive effect on losses.

	2016
	\$
Net loss attributable to ordinary shareholders	<u>(3,025,924)</u>
Weighted average number of ordinary shares	<u>205,357</u>
Basic and diluted loss per share (\$ per share)	<u><u>(14.73)</u></u>

There have been no transactions involving ordinary shares or potential ordinary shares between the reporting date and the date of authorisation of these financial statements.

15. Oil and gas assets

Group

	Oil and gas assets
	\$
Cost	
On acquisition of oil and gas business	1,995,118
Additions	824,746
At 31 December 2016	<u>2,819,864</u>
Depreciation, depletion and amortisation	
Charge for period	<u>131,670</u>
At 31 December 2016	<u>131,670</u>
Net book value	
At 31 December 2016	<u><u>2,688,194</u></u>

TECHNOLOGY ENHANCED OIL PLC

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 DECEMBER 2016**

16. Investments

Company

**Investments
in
subsidiary
companies
\$**

Cost

Additions

51,000

At 31 December 2016

51,000

Net book value

At 31 December 2016

51,000

Investments in subsidiary companies

The Company's subsidiary undertakings are as follows:

Name of company	Country of incorporation	Nature of business	Interest	Proportion of voting rights and shares held
Technology Enhanced Oil America Ltd	England & Wales	Intermediate holding company	100%	100%
Technology Enhanced Oil Inc.	USA	Intermediate holding company	100%	100%
Beauty Oil LLC	USA	Oil and gas production	100%	100%

The registered office addresses of the Company's subsidiaries are as follows:

Technology Enhanced Oil America Ltd	Salisbury House, London Wall, London EC2M 5PS, United Kingdom.
Technology Enhanced Oil Inc.	801 Travis St, Suite 1818, 77002 Houston, Texas, United States of America.
Beauty Oil LLC	801 Travis St, Suite 1818, 77002 Houston, Texas, United States of America.

TECHNOLOGY ENHANCED OIL PLC

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 DECEMBER 2016**

17. Trade and other receivables

	Group 2016 \$	Company 2016 \$
Non – current		
Long term loans to subsidiaries	-	4,025,282
Amounts owed by affiliated company	356,240	-
	<u>326,240</u>	<u>4,025,282</u>
Current		
Trade receivables	54,609	-
Other receivables	20,000	-
Amounts owed by affiliated company	210,135	-
Amounts owed by parent company	21,197	21,197
	<u>305,941</u>	<u>21,197</u>

Trade receivables are considered to be impaired if they are more than three months overdue at the date of approval of the financial statements. No allowance for doubtful debts was considered necessary at 31 December 2016.

The Company has revolving credit agreements with two of its subsidiaries. The revolving credit agreements have an interest rate of LIBOR plus 1% per annum with a maturity date of 31 December 2018.

The amounts owed by the affiliated company are subject to a revolving credit agreement with a maximum commitment amount of \$500,000 at an interest rate of LIBOR plus 1% per annum and a maturity date of 31 December 2018.

The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivable mentioned above. Neither the Group nor the Company holds any collateral as security.

18. Cash and cash equivalents

	Group 2016 \$	Company 2016 \$
Cash at bank and on hand	3,893,057	3,352,084
Short-term deposits	25,005,118	25,005,118
	<u>28,898,175</u>	<u>28,357,202</u>

Cash at bank earns interest at floating rates based on daily bank interest rates. Short-term deposits are made for varying periods of between one month and three months, depending on the immediate cash requirements of the Group, and earn interest at the respective short-term deposit rates.

TECHNOLOGY ENHANCED OIL PLC

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 DECEMBER 2016**

19. Issued Capital

Allotted, called up and fully paid	2016
50,000 ordinary shares of £1 each	\$
	76,585

Upon incorporation 50,000 ordinary £1 shares were issued at par for cash to provide the Group's initial working capital.

Fully paid ordinary shares carry one vote per share and the right to dividends and to distributions on winding up.

20. Equity share based payments

The Group and the Company bear the expense of share warrants granted by its ultimate parent company to employees of the Group and the Company. All warrants vest immediately.

The movements of warrants during the period was as follows:

	2016
	Weighted average exercise price (cents)
	Number
Granted in period	1
	5,812
At end of the period	1
	5,812

At 31 December 2016, the weighted average remaining contractual life of warrants exercisable was 5.7 years. The weighted average fair value of warrants granted, estimated using the Black-Scholes option-pricing model was \$7.84. The estimated fair values of warrants granted during the period are based on the following weighted average assumptions:

Warrant pricing model	Share warrants Black Scholes 2016
Weighted average share price at date of grant	\$7.84
Weighted average exercise price	\$0.01
Expected life	5.6 years
Expected volatility	23%
Expected dividend yield	0%
Risk free interest rate	1%

The volatility assumption, measured at the standard deviation of expected share price returns, is based on a statistical analysis of financial market indices. The charge for equity settled share based payments in the period ended 31 December 2016 was \$4,542.

5,812 Warrants with an exercise price \$0.01 were outstanding at 31 December 2016.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 DECEMBER 2016

21. Reserves

Convertible debt reserve

The reserve represents the equity component of convertible bonds.

Capital contribution

The capital contribution arises on warrants issued by the Group's parent company to Directors and employees of the Group.

Accumulated deficit

The accumulated deficit represents losses recognised in the consolidated statement of comprehensive income.

22. Borrowings - Convertible bonds

The Group's borrowings consist of 6.00% mandatorily convertible bonds with a mandatory conversion date of 15 January 2022.

The bonds have a coupon rate of 6 per cent per annum. The bonds are mandatorily convertible into ordinary shares of the Company on 15 January 2022. On conversion in full the bondholders will receive 200,000 ordinary shares of the Company, being 80% of the fully diluted capital. Under the terms of the bonds there are early conversion options under certain circumstances (qualifying IPO, change of control or default event) and the conversion price is to be adjusted on the occurrence of certain events in order to maintain the interest the bondholders have in 80% of the fully diluted share capital of the Company.

The fixed share conversion price at 31 December 2016 was \$178.10 per share. The total number of ordinary shares to be issued, if all bonds are converted at this adjusted conversion price, is 200,000. If the bonds have not been previously purchased and cancelled, redeemed or converted, they will be converted into ordinary shares on 15 January 2022. Interest of 6 per cent per annum will be paid quarterly in arrears to the mandatory conversion date, being 15 January 2022.

There are covenants attached to the loan which seek to protect the bondholders interests in their entitlement to the share capital of the Company on mandatory conversion of the bond.

TECHNOLOGY ENHANCED OIL PLC

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 DECEMBER 2016**

22. Convertible bonds (continued)

The convertible bonds were issued in 4 tranches as follows:

Tranche	Issue date	Nominal value \$
Tranche 1	15 January 2016	6,020,000
Tranche 2	15 April 2016	1,850,000
Tranche 3	15 July 2016	25,000,000
Tranche 4	1 September 2016	2,750,000
Total		35,620,000

The equity component and liability proportion of the bonds have been determined based on the effective yield of a similar maturity corporate bond as set out below. Issue costs of \$1,593,261 have been apportioned between the liability and equity components based on their relative carrying amounts at the respective dates of issue. The proportion relating to equity has been charged directly to equity.

	2016 \$
Nominal value of bonds issued	35,620,000
Discount on issue	(375,000)
Issue costs	(1,593,261)
Accrued interest	21,083
	33,672,822
Proceeds of issues	33,672,822
Liability component at dates of issue	(7,540,649)
Equity component	26,132,173
Liability component as above	7,540,649
Interest at effective interest rate of 18.408%	657,951
Interest paid	(652,350)
Liability component at 31 December 2016	7,546,250

The carrying value as at 31 December 2016 comprised:

	Group	Company
	2016 \$	2016 \$
Current	2,137,200	2,137,200
Non - current	5,409,050	5,409,050
	7,546,250	7,546,250

TECHNOLOGY ENHANCED OIL PLC

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 DECEMBER 2016**

23. Provisions

Group	Decommissioning \$
Acquisition of business	757,618
Unwinding of discount	14,150
At 31 December 2016	771,768
Comprising:	
Current	-
Non-current	771,768
	771,768

The Group makes full provision for the future cost of decommissioning oil production facilities on a discounted basis on the acquisition and installation of those facilities.

The decommissioning provision represents the present value of decommissioning costs relating to oil and gas properties, which are expected to be incurred up to 2036 which is when the last of the producing oil and gas properties are expected to cease operations. These provisions have been created based on the Group's internal estimates. Assumptions based on the current economic environment have been made, which management believes are a reasonable basis upon which to estimate the future liability. These estimates are reviewed regularly to take into account any material changes to the assumptions. However, actual decommissioning costs will ultimately depend upon future market prices for the necessary decommissioning works required that will reflect market conditions at the relevant time. Furthermore, the timing of decommissioning is likely to depend on when the fields cease to produce at economically viable rates. This, in turn, will depend upon future oil and gas prices, which are inherently uncertain.

The net present value of current decommissioning provision estimates have been discounted to their present value at 2.79% per annum, being the prevailing risk free interest rate based on US long term government bonds.

A 1% increase or decrease in the discount rate on the group's decommissioning provision would result in a \$0.135 million impact on the statement of comprehensive income over the expected 20 year operating lives of the oil and gas assets.

24. Trade and other payables

	Group 2016 \$	Company 2016 \$
Current		
Trade payables	81,836	76,726
Other payables	62,379	63,379
Amounts owed to affiliated company	598,941	-
	743,156	140,105

The carrying values of the trade and other payables approximate to their fair value as at the period end date.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 DECEMBER 2016

25. Financial instruments

The Group's and Company's treasury policy is to avoid transactions of a speculative nature. In the course of trade the Group and Company is exposed to a number of financial risks that can be categorised as market, credit and liquidity risks. The Board has identified the risks within each category and considers the impact on the activities of the Group and Company as part of their regular meeting routine.

Principal financial instruments

The principal financial instruments used by the Group and Company, from which financial instrument risk arises, are as follows:

Trade and other receivables
Cash and cash equivalents
Trade and other payables
Amounts owed by/to group companies
Mandatorily convertible bond

A summary of the financial instruments held by category is provided below:

	Group 2016 \$	Company 2016 \$
Financial assets		
Cash and cash equivalents	28,898,175	28,357,202
Trade and other receivables	95,806	21,197
Amounts owed by group companies	-	4,025,282
Amounts owed by affiliated company	566,375	-
Total financial assets	<u>29,560,356</u>	<u>32,403,681</u>
Financial liabilities at amortised cost		
Trade and other payables	144,215	140,105
Amounts owed to affiliated company	598,941	-
Mandatorily convertible bond	7,546,250	7,546,250
Total financial liabilities	<u>8,289,406</u>	<u>7,686,355</u>

The Directors consider that the carrying amounts of financial assets and financial liabilities recognised in the Group's and Company's financial statements approximate their fair values (due to their nature and short times to maturity).

TECHNOLOGY ENHANCED OIL PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2016

25. Financial instruments (continued)

Currency risk

The Group's and Company's financial risk management objective is broadly to seek to make neither profit nor loss from exposure to currency or interest rate risks. The Group and Company is exposed to transactional foreign exchange risk and takes profits and losses as they arise, as in the opinion of the Directors, the cost of hedging against fluctuations would be greater than the related benefit from doing so.

The fair value of short term deposits and other financial assets approximates to the carrying amount.

The carrying amounts as at 31 December 2016 of the Group's and Company's trade, intercompany and other receivables denominated in the currencies other than US Dollars are:

	Group 2016 \$	Company 2016 \$
UK Pounds	21,197	21,197

All of the Group and Company's cash and cash equivalents are denominated in US Dollars.

The carrying amounts of the Group and Company's trade, intercompany, other payables and borrowings denominated in currencies other than US Dollars are:

	Group 2016 \$	Company 2016 \$
UK Pounds	62,304	62,304

Interest rate risk

The Group and Company finances its operations through loans. The Group's and Company's exposure to interest rate fluctuations on its borrowings has been limited by the terms of the mandatorily convertible bond described in Note 22.

The Group has provided a revolving loan facility bearing interest at Libor Plus 1% to an affiliated company. A 1% change in Libor rates would increase or decrease the Group's interest receivable by \$5,000.

The Company has provided revolving loan facilities bearing interest at Libor Plus 1% to its subsidiaries. A 1% change in Libor rates would increase or decrease the Company's interest receivable by \$40,000.

The Directors do not, therefore, consider the Group or the Company to be materially sensitive to interest rate risk.

Commodity risk

Whilst the Group is currently exposed to the risk of fluctuations in prevailing market commodity prices on the mix of oil and gas, the Group is not yet producing sufficient quantities of oil and gas to make the cost of hedging worthwhile.

TECHNOLOGY ENHANCED OIL PLC

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 DECEMBER 2016**

25. Financial instruments (continued)

Credit risk

Operational risk

The Group sells substantially all its oil and gas to one purchaser. Based on the adequate number of potential other purchasers of its oil and gas production, the Group does not believe the loss of this major customer would have a significant effect on its results of operations or financial position.

Financial risk

The Group and Company are subject to concentrations of credit risk from cash deposits in excess of insured limits. The Group and Company place their cash in financial institutions which are considered high quality financial institutions by management. At times, such cash deposits may be in excess of insured limits. The Group and Company do not enter into any derivatives to manage credit risk. Further information on Trade and other receivables are presented in Note 17.

Liquidity risk

The Group and Company is exposed to liquidity risk as part of its normal trading cycle. The Group's and Company's policies ensure sufficient liquidity is available to meet foreseeable needs through the preparation of short and long term forecasts. With the exception of acquisitions, the Group's and the Company's requirements are constant throughout the period and relate largely to working capital which is managed through the use of surplus cash.

The Group and Company had no bank loans, overdrafts or invoice finance facilities at 31 December 2016 and no debentures or personal guarantees were in place. The convertible bonds are mandatorily convertible and thus do not effect liquidity.

The tables below show the undiscounted cash flows on the Group's and Company's financial liabilities as at 31 December 2016 on the basis of their earliest possible contractual maturity.

Group At 31 December 2016	Total	0-180 days	181-365 days	1-2 years	2-5 years	More than 5 years
	\$	\$	\$	\$	\$	\$
Trade payables	81,836	81,836	-	-	-	-
Accruals	62,379	62,379	-	-	-	-
Affiliated company	598,941	598,941	-	-	-	-
Interest on convertible bonds	11,220,300	1,068,600	1,068,600	2,137,200	6,411,600	534,300
	11,963,456	1,811,756	1,068,600	2,137,200	6,411,600	534,300
Company At 31 December 2016	Total	0-180 days	181-365 days	1-2 years	2-5 years	More than 5 years
	\$	\$	\$	\$	\$	\$
Trade payables	76,726	76,726	-	-	-	-
Accruals	63,379	63,379	-	-	-	-
Interest on convertible bonds	11,220,300	1,068,600	1,068,600	2,137,200	6,411,600	534,300
	11,360,405	1,208,785	1,068,600	2,137,200	6,411,600	534,300

TECHNOLOGY ENHANCED OIL PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2016

25. Financial instruments (continued)

Capital risk

The primary objective of the Company's capital management is to establish and maintain a capital structure that safeguards the Group as a going concern and to maintain healthy credit ratios in order to support its business and then provide a return to shareholders and protect the interests of the bondholders. For the purposes of the Group's capital management, capital includes share capital and all other equity reserves attributable to the equity holders of the parent. The Group manages its capital structure and makes adjustments in light of changes in economic conditions and in order to make further acquisitions as the opportunities arise.

If the Group breaches the terms of the convertible bond and an event of default occurs, including non-payment of the coupons, breach of obligations, cross-default, insolvency, winding-up, ceasing to carry on business, judgement, illegality or analogous events, then the entire amount would immediately become due and payable. There have been no defaults or breaches of terms of the convertible bond in the current period.

26. Acquisitions during the period

On 15 June 2016 (effective 1 June 2016), the Group, through Beauty Oil LLC, made its initial acquisition of working interest in the East Texas basin located in Navarro County. The properties acquired comprise 52 wells. The wells are located eight miles southeast of the city of Corsicana, TX, on a total of 14 leases, covering an area of approximately 2,500 acres. In the opinion of the directors these assets are mature production assets and constitute a business. The acquisition has therefore been accounted for as a business combination. At acquisition, five percent of the interest acquired in the property was assigned to a fellow subsidiary at fair value. The Group retained 95% of the interest acquired.

The principal reason for making this acquisition was to start to meet the Group's primary aim - to enhance shareholder value by identifying and acquiring producing on-shore conventional oil field assets in North America and to improve the production levels of those assets by the application of a range of sophisticated enhanced oil recovery technologies.

The Directors' fair value determination of the assets and liabilities acquired is set out in the table below.

	Fair Values
	\$
Oil and gas properties	1,995,118
Decommissioning provision assumed	(715,618)
	<u>1,237,500</u>
Fair value of the consideration paid	
	\$
Consideration settled by:	
Cash	1,237,500
	<u>1,237,500</u>

NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 DECEMBER 2016

26. Acquisitions during the period (continued)

The fair value of Beauty Oil's tangible assets (Oil & Gas assets) have been measured provisionally in respect of P2 and P3 reserves. Management are currently undertaking geological and geophysical studies to calculate potential fair value uplifts in relation to these reserves. This may affect management's current assessment and the valuation will be finalised within 12 months of the acquisition. Further details on the calculation of the fair value of the decommissioning provision can be found in Note 23.

Acquisition costs of \$182,528 have been recognised within administrative expenses in the Statement of Comprehensive Income.

From the date of the acquisition (1 June 2016) the Powell Corsicana Workings have contributed \$434,619 to group revenue and \$777,751 to the Group loss.

27. Ultimate parent company

The immediate and ultimate parent undertaking is Iskandia Energy Limited, a company registered in England and Wales.

28. Related party disclosures

28.1 Control

The Company's ultimate controlling party is Iskandia Energy Limited.

28.2 Group disclosures

Transactions with parent company

	2016 \$
Purchase of services	716,608
Recharges of expenses	162,600

Balances due from:

	2016 \$
Parent company	21,197

The Group's parent company provides management and administrative services to the Group under a services agreement. Outstanding balances at period end are unsecured and settlement occurs in cash.

TECHNOLOGY ENHANCED OIL PLC

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 DECEMBER 2016**

28. Related party disclosures (continued)

28.2 Group disclosures (continued)

Transactions with affiliated company:

	2016
	\$
Interest receivable	2,405
Management fees	277,402

Balances due from affiliated company:

	2016
	\$
Oil revenues	207,730
Accrued interest on revolving credit agreement	2,405
Advances under revolving credit agreement	356,240

Balances due to affiliated company:

	2016
	\$
Lease operating expenses	331,039
Management fees	267,902

The Group's oil and gas assets are operated under an agreement with an affiliated company. Under this agreement, the Group is billed for its share of operating expenses incurred and receives its share of production revenues net of expenses incurred. The Group is also billed a management fee for general and administrative costs incurred on the Group's behalf. Outstanding balances at period end are unsecured, interest free and settlement occurs in cash.

The revolving credit agreement bears interest at LIBOR plus 1% per annum with a maturity date of 31 December 2018.

28.3 Company disclosures

Transactions – with parent company

	2016
	\$
Purchase of services	716,608
Recharges of expenses	162,600

Transactions – with subsidiary companies

	2016
	\$
Sale of services	257,892
Interest receivable	26,200

Balances due from

	2016
	\$
Parent company	21,197
Subsidiary companies – revolving credit agreements	4,024,282

Balances due to

	2016
	\$
Subsidiary companies – contribution	1,000

TECHNOLOGY ENHANCED OIL PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2016

28. Related party disclosures (continued)

28.3 Company disclosures (continued)

The Group's parent company provides management and administrative services to the Group under a services agreement. Outstanding balances at period end are unsecured and settlement occurs in cash.

The Company has revolving credit agreements with two of its subsidiaries. The revolving credit agreements have an interest rate of LIBOR plus 1% per annum with a maturity date of 31 December 2018.

The Company provides management and administrative services to one of its subsidiaries under a services agreement. The amounts outstanding under this agreement are rolled up into the revolving credit agreement.

29. Acquisitions subsequent to the reporting period

On 28 February 2017 (effective 1 October 2016), the Group purchased a working interest in certain oil and gas properties "The Sheridan Property Workings" for \$21,975,537. The Sheridan Property Workings in Texas, USA, are mature production assets and in the opinion of the Directors constitute a business. The Sheridan Property Workings oil and gas assets will be held by a newly created wholly owned subsidiary, Lovely Oil, LLC. The purchase was funded by cash.

At acquisition, one percent of the interest acquired in the property was assigned to a fellow subsidiary at fair value. The Group retained 99% of the interest acquired.

The Directors' provisional fair value determination of the assets and liabilities acquired is set out in the table below:

	Fair Values
	\$
Oil and gas properties	33,745,241
Decommissioning provision assumed	(8,413,260)
Oil inventories	234,851
Plant and machinery	40,000
	25,606,832
Fair value of the consideration paid	 \$
Consideration settled by:	
Cash	21,975,537
	21,975,537

TECHNOLOGY ENHANCED OIL PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2016

29. Acquisitions subsequent to the reporting period (continued)

The fair value of acquired identifiable assets/liabilities is provisional pending receipt of the final valuations for those assets. Acquisition costs amounted to \$106,675.

Under the purchase agreement, the Group was entitled to receive revenue less costs for the period from 1 October 2016 until 28 February 2017. Revenue net of costs of \$425,814 for the period before control was achieved has been treated as a deduction from the purchase price.

Although the effective date of the acquisition was 1 October 2016, the Group did not obtain control over the oil properties until 28 February 2017, the date on which completion took place and the consideration was paid.

30. Contingent liabilities

In the course of its business affairs and operation, the Group is subject to possible loss contingencies arising from federal, state and local environmental, health and safety laws and regulations and third party litigation. It is the opinion of management that the disposition or ultimate resolution of such claims and lawsuits will not have a material adverse effect on the financial position, results of operations, and cash flows of the Group. The estimated cost of known decommissioning obligations has been provided in these accounts in accordance with the Group's accounting policies.

31. Subsequent events

The Group issued a further tranche of 6.00% mandatory convertible bonds with a conversion date of 15 January 2022 and a nominal value of US\$ 25,000,000 on 18 April 2017. Transaction costs of \$653,600 were incurred on the issue of this tranche. The terms and conditions of the bond are as described in Note 22 above. The nominal value of the bonds after this issue will be \$60,620,000 and the conversion price after this issue will be \$303.10.



TECHNOLOGY ENHANCED OIL PLC

Report to the Board

Audit for the period ended 31 December 2016

Issued to the Board - 23 June 2017



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Private and Confidential

23 June 2017

The Board
Technology Enhanced Oil Plc
Salisbury House
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Dear Sirs

Financial statements for period ended 31 December 2016

Following our recent audit of your financial statements, we are writing to advise you of the significant matters arising from the audit. These are set out on the following pages and summarise our work and findings on the key audit and accounting matters and any control environment deficiencies identified.

The report is issued in line with the proposed date of approval of the financial statements. We will also require a signed letter of representation from Management which has been included in the following pages. This should be signed and dated along with the financial statements. We will require a copy of this before the audit report can be signed.

As the purpose of the audit is to form an opinion on the company's financial statements, you will appreciate that our audit cannot necessarily be expected to disclose all matters that may be of interest to you and, as a result, the matters reported may not be the only ones which exist.

We have prepared this report for your use only. It should not be disclosed to any other person without our express permission in writing. We do not accept responsibility for this report to any other person and we hereby disclaim any and all such liability.

We would like to take this opportunity to thank you and your staff for your help and co-operation during the course of our audit.



Louise Sayers
Director
For and on behalf of BDO LLP

KEY AUDIT AND ACCOUNTING MATTERS



SIGNIFICANT AUDIT RISKS

We have assessed the following matters as significant audit risks. Below we set out how these risks have been addressed during the course of the audit and the outcomes of our audit procedures.

RISK	DESCRIPTION	AUDIT RESPONSE
Management override of controls	ISA (UK & Ireland) 240 requires us to presume that the risk of management override of controls is present and significant in all entities.	The following testing has been performed in order to identify any instances of management override: • We reviewed journal entry listings for the year for large and unusual items with no irregularities identified • Management estimations, judgements and application of accounting policies have been reviewed for undue bias in the financial statements • We have reviewed our unadjusted audit differences without identification of indications of bias or deliberate misstatement, and • We have applied scepticism in our audit procedures and have not identified instances of management override.
Conclusion	From the procedures undertaken we have not identified any instances which indicate the financial statements are materially misstated as a result of management override. In addition, we have reviewed and challenged the estimates and judgements that we believe to be key to the financial statements with no issues noted.	



KEY AUDIT AND ACCOUNTING MATTERS

Continued

SIGNIFICANT AUDIT RISKS (continued)		
RISK	DESCRIPTION	AUDIT RESPONSE
Revenue Recognition	ISA (UK & Ireland) 240 requires us to presume that there are risks of fraud in revenue recognition. These risks may arise from the use of inappropriate accounting policies, failure to apply the company's stated accounting policies or from an inappropriate use of estimates in calculating revenue. The revenue balance per the financial statements is made up of production revenue arising in the Beauty Oil LLC subsidiary and we therefore consider the risk to relate to this entity only.	The following work has been performed by component auditor, EEPB, in the US in respect of Beauty Oil, LLC: • Substantively tested a sample of monthly revenue invoices by recalculating net revenue to be recognised, agreeing to the supporting production statement and agreeing cash inflows to bank receipt with no issues noted. • Performed analytics on the monthly price per barrel recognised to ensure prices were in line with the market price per barrel according to The Wall Street Journal Market Data Center, with no significant variances identified. • We have enquired with management as to potential inventory at the year end for due to the time lag in production and sales made. The last purchase of the year was made on 20th December, and therefore there is 11 days of production as inventory. Based on production numbers this would be approximately 386 barrels. Estimated value of the inventory at \$50/ barrel of \$19,300. The value is clearly trivial and therefore not raised as an unadjusted audit difference.
Conclusion:	From the procedures undertaken we did not identify any material misstatement in relation to revenue.	

KEY AUDIT AND ACCOUNTING MATTERS

Continued



SIGNIFICANT AUDIT RISKS (continued)		
RISK	DESCRIPTION	AUDIT RESPONSE
Carrying value of oil assets	The oil assets are valued at \$2.8m and are therefore a material item on the Company's balance sheet. There is judgement required over whether costs are capitalised to the balance sheet. The assets are required to be assessed for indicators of impairment on an annual basis. This requires management to make judgements over whether the assets meet any of the indicators of impairment set out in the accounting standard. If an impairment is identified the calculation of a potential impairment can be complex. We therefore consider the the carrying value of the assets to be a significant audit risk .	The following audit testing has been performed: • The value of acquired assets have been agreed to the sales purchase agreement with no material issues noted. • For additions since the acquisition date substantive testing has been performed on a sample of capitalised items to agree to supporting documentation and to check they have been correctly capitalised. No issues were noted. • The nature of G&G expenditure incurred in the year and expensed has been reviewed to ensure the accounting treatment is correct under IFRS. We are in agreement with management's conclusion not to capitalise the G&G costs in relation to the acquisition of assets and determining the value of reserves acquired. These are considered to be costs of the business combination and must be expensed. • Potential indicators of impairment under IAS 36 were considered - no indicators of impairment were identified for the Corsicana assets held within Beauty Oil, LLC. Reserve reports were obtained and reviewed which support the value of the oil assets.
Conclusion:	Based on the procedures undertaken we have not identified any material misstatements relating to the carrying value of the oil assets.	

KEY AUDIT AND ACCOUNTING MATTERS

Continued

SIGNIFICANT AUDIT RISKS (continued)		
RISK	DESCRIPTION	AUDIT RESPONSE
Decommissioning Provision	Beauty Oil, LLC has a legal obligation to plug and abandon all wells at the end of their producing life. A provision for plug and abandonment (P&A) should be recognised when wells are drilled. It should be measured at the present value of the expected future cash flows that will be required to satisfy the plug and abandonment obligations, a corresponding equivalent decommissioning asset is recorded on initial recognition of the liability. Management judgement is required around the estimate of P&A per well and the discount rate applied in recognising the present value, and therefore decommissioning provisions are considered a significant audit risk.	• Management consider the P&A cost per well to be approximately \$15,000. This cost has been verified to supporting quotations and local industry guidelines for similar wells in the area with no issues noted. • The working interest in each of the wells has been agreed to source documentation with no variations noted and the life of the well for discounting purposes agreed to reserve report. • The decommissioning liability should be discounted to present value at the risk free rate of borrowing and unwound each year. A discount rate of 6% was applied in calculating the present value of the obligation, however this was revised to 2.79% as we do not deem 6% to be a suitable risk free rate. We have verified that the 2.79% rate applied in the calculation is in line with expectation and that the calculation has been correctly applied.
Conclusion	Based on the audit procedures undertaken we have not identified any indication that the decommissioning liability is materially misstated.	

KEY AUDIT AND ACCOUNTING MATTERS

Continued



SIGNIFICANT AUDIT RISKS (continued)		
RISK	DESCRIPTION	AUDIT RESPONSE
Convertible loan notes	The convertible loan note Bond issued by the company represents a complex financial instrument, the accounting treatment for which will be led by IAS 39 “Financial instruments - recognition and measurement”. The loan notes are mandatorily convertible and pay interest at a coupon rate of 6%. The loans are convertible into equity of the entity to a maximum value of 80% of the ordinary share capital of the Company. On conversion 80% of the ordinary share capital allocated to the Bondholders and in order to attribute the number of shares each Bondholder will receive, the 80% of share capital allocated to Bondholder is pro-rated against the total value of all bonds in issue based on the capital value of the bonds. Further issues of bonds therefore dilute previous Bondholders equity options. The loan notes are material, require complex accounting and involve significant judgement in respect of identifying the appropriate accounting treatment. Therefore the treatment of the convertible loan notes is considered a significant audit risk.	• We have obtained the loan agreements and supporting documentation to verify the terms of the loan and that the correct accounting treatment has been applied given the mandatory conversion. • The convertible loan notes are treated as a compound instrument with an element recognised in equity, after calculating the fair value of the liability based on market interest rates. This accounting is predicated on the view that there is a fixed share conversion ratio in the bond holder agreement which stands as at the reporting date and the bondholders have a right to a fixed 80% equity interest in the capital of the Company. • We have challenged Management on whether this assumption and interpretation of the requirements of IAS 32 and IAS 39 is appropriate. We have consulted widely within the firm and within our technical team as well as conducting detailed research on this particular point. • We have also considered analogies with mandatorily convertible preference shares and rights issues in order to ensure that the accounting applied not only follows the interpretation of the relevant accounting principles but also follows the accounting of other financial instruments which are similar in nature. • We note that the bond agreement is unusual in the way it is structured and the way it operates and therefore there is no clear example provided in accounting commentaries or the application guidance of the standards. Although we have ultimately confirmed we can accept the accounting treatment proposed by Management we note it is important that sufficient disclosure is included within the financial statements to reflect the judgements and conclusions drawn. • We have recalculated the effective interest rate, including the amortisation of transaction costs, and did not note any errors. We considered if the interest rate of 6% represented a market interest rate. It was noted that the Bonds are freely traded on the Singapore bond exchange and are held by sophisticated investors. On this basis we consider that the 6% interest rate plus the variable return on the equity conversion element of the investment does represent a market interest rate. • We have challenged and sensitised the discount rate applied and noted a judgemental unadjusted audit difference. There is no material impact on the balance sheet or the income statement as a result of this difference therefore there is no requirement to post it. It disclosed for your information. • We have reviewed the disclosure of the treatment of the loans to ensure it is in line with IFRSEU requirements. No issues have been noted with the proposed disclosure in the financial statements.
Conclusion	From the audit procedures undertaken we concur with Management’s accounting treatment. No indication of material misstatement.	

KEY AUDIT AND ACCOUNTING MATTERS

Continued



SIGNIFICANT AUDIT RISKS (continued)		
RISK	DESCRIPTION	AUDIT RESPONSE
Accounting for the business combination	In June 2016 the Group acquired working capital interests in oil and gas properties in The Powell Corsicana Workings in Texas, USA. This has been accounted for as a business combination. The assets and liabilities acquired are recognised at fair value based on best estimates. Given the level of judgement required in determining fair value we consider there to be a significant risk of material misstatement in the financial statements in this regard.	- We have reviewed the terms of the sales & purchase agreement ('SPA') to ensure the acquisition meets the definition of a business as set out in IFRS 3 and can therefore be treated as a business combination. We agree with management's conclusions. - Consideration recognised has been agreed to the SPA confirmed to the bank statement. - The reserves report has been obtained to assist in the determination of the fair value of assets acquired and is considered reasonable. We have noted that the reserve report only assesses P1 reserves however we would also expect to see a fair value for P2 and P3 reserves. In line with ongoing work to determine the fair value of these P2 and P3 reserves no fair value consideration has been included for these potential resources. The financial statements clearly state that the fair value uplift is provisional and will be finalised within 12 months of the acquisition date. We have discussed with management the importance of ensuring these finalised figures are concluded upon with the twelve month window. - We have checked for other assets, liabilities and contingent liabilities which would also require to be disclosed. We identified that inventory had not been recorded however considered immaterial therefore not considered to present an error. - We have identified acquisition date as 01 June 2016. The actual transfer of the assets took place on 15 June 2016, however in line with the SPA the sale is backdated to 01 June. This has been sufficiently disclosed in the financial statements. - Accounts disclosures have been reviewed to ensure sufficient disclosure of the acquisition is included in the financial statements and sufficient commentary to explain the acquisition and how fair values have been determined is stated. No issues noted with the proposed disclosure. We note that the disclosure for the Lovely Oil, LLC acquisition should be in line with the detail disclosed for the business combination in the year, however it is too early to determine these values and therefore provisional values have been disclosed. This is considered reasonable. - There is a potential deferred tax impact on the acquisition of the assets. We have calculated the potential impact on the financial statements and consider there to be a clearly trivial impact. No unadjusted audit difference required.
Conclusion	From the audit procedures undertaken we concur with Management's accounting treatment for the business combination.	



CONTROL ENVIRONMENT - MANAGEMENT LETTER POINTS



As part of our audit procedure we have discussed the controls in place at a component and Group level. From these discussions and the audit procedures performed we report to you on findings in relation to the systems and controls:

- **Excel based information system** - All financial information is maintained in excel format why may not be appropriate as the company continues to grow and the volume of transactions increases. Going forward beneficial to set up an accounting system to reduce the risk of errors and potential loss of data.



The matters raised in our management letter prepared in connection with the audit are those we believe should be brought to your attention. They do not purport to be a complete record of all matters arising. This letter is prepared solely for the use of the company and may not be quoted nor copied without our prior written consent. No responsibility to any third party is accepted.

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