

INDEPENDENT OIL & RESOURCES PLC  
FINANCIAL STATEMENTS  
31 December 2016

# INDEPENDENT OIL & RESOURCES PLC

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## FINANCIAL STATEMENTS

31 December 2016

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# INDEPENDENT OIL & RESOURCES PLC

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## BOARD OF DIRECTORS AND OTHER CORPORATE INFORMATION

|                      |  |
|----------------------|--|
| Board of Directors   | Jan Egil Moe (Chairman)<br>Anastasia Demosthenous<br>Foula Francis<br>Robert Arnott (appointed 31.08.2016)   |
| Company Secretary    | Fidelius Management Services Limited   |
| Independent Auditors | Ernst & Young Cyprus Limited<br>Certified Public Accountants and Registered Auditors<br>Nicosia Tower Centre<br>Jean Nouvel Tower<br>6 Stasinou Avenue<br>PO Box 21656<br>1511 Nicosia, Cyprus |
| Registered office    | Christodoulou Chatzipavlou 205<br>LOULLOUPIS COURT, 4th Floor, Office 401<br>3036, Limassol<br>Cyprus  |
| Bankers              | Nordea Bank<br>Bank of Cyprus Public Company Ltd   |
| Registration number  | HE319278   |

# INDEPENDENT OIL & RESOURCES PLC

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## MANAGEMENT REPORT

The Board of Directors presents its report and audited financial statements of the Company for the year ended 31 December 2016.

### Principal activities

The principal activities of the Company, which are unchanged from last year, are the holding and trading of investments.

Independent Oil & Resources PLC is listed on the OTC list on the Oslo Stock Exchange under the ticker code IOTA.

### Review of current position, future developments and significant risks

The Company's development to date, financial results and position as presented in the financial statements are considered satisfactory.

The main risks and uncertainties faced by the Company and the steps taken to manage these risks, are described in note 19 of the financial statements.

### Results and Dividends

The Company's results for the year are set out on page 7. The Board of Directors does not recommend the payment of a dividend.

### Share capital

#### Authorised capital

On 30 April 2014, the authorised share capital of the Company was increased to 1.437.770.800 shares of nominal value NOK 0,025 each. At an Extraordinary General Meeting on 5 November 2014, it was resolved to a capital merge of 100 shares to 1, by altering the shares' nominal value from NOK 0,025 to NOK 2,50 each. The authorised share capital of 1.437.770.800 shares of NOK 0,025 each, was therefore, reduced to 14.377.708 shares of NOK 2,50 each. On the same day the authorised share capital was increased by the creation of 2.999.924 additional shares of NOK 2,50 each. As at 31 December 2014, the total authorised share capital was 17.377.632 shares of nominal value NOK2,50 each. Following a court order on 28 September 2015, the authorised share capital was reduced by 3.210.906 shares to 14.166.726 shares of NOK 2,50 each. On 31 August 2016, the authorised share capital of the Company was increased by 14.166.726 shares to 28.333.452 shares of nominal value NOK 2,50 each.

#### Issued capital

At an Extraordinary General Meeting on 5 November 2014 it was resolved to a capital merge of 100 shares to 1, by altering the shares' nominal value from NOK0,025 to NOK 2,50 each. The issued share capital of 1.158.508.828 shares of NOK0,025 each was therefore, reduced to 11.585.089 shares of NOK2,50 each.

On 24 November 2014 the Board of Directors of the Company offered to 149 shareholders up to 5.792.543 new shares, with a subscription price of NOK 4 per share. The said offer was made pursuant to the authority granted to the board of directors by the general meeting.

On 22 May 2015, the Company purchased 2.937.874 additional treasury shares at NOK 1 each.

On 28 September 2015, following a court order, the issued share capital of the Company was reduced by NOK 8.027.265, representing 3.210.906 shares of NOK2,50 each.

On 6 October 2016, the Company issued 9.886.485 shares with nominal value of NOK2,50 at a price of NOK3,50 each.

### Board of Directors

The members of the Company's Board of Directors as at 31 December 2016 and at the date of this report are presented on page 1. All of them, except Mr. Robert Arnott who was appointed as a director on 31 August 2016, were members of the Board of Directors throughout the year ended 31 December 2016.

In accordance with the Company's Articles of Association, Foula Francis, presently member of the Board, retires and is eligible for re-election.

There were no significant changes in the assignment of responsibilities and remuneration of the Board of Directors.

# INDEPENDENT OIL & RESOURCES PLC

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## MANAGEMENT REPORT (CONTINUED)

### Independent Auditors

The independent auditors, Ernst & Young Cyprus Limited, have signified their willingness to continue in office. A resolution proposing their reappointment and authorising the Directors to set their remuneration will be proposed at the Annual General Meeting of the Company.

By order of the Board of Directors,

Fidelius Management Services Limited  
Secretary

Limassol, 26 May 2017



## **Independent Auditor's Report**

### **To the Members of Independent Oil & Resources PLC**

#### **Report on the financial statements**

##### **Opinion**

We have audited the financial statements of Independent Oil & Resources PLC (the "Company"), which are presented in pages 7 to 29 and comprise the statement of financial position as at 31 December 2016, and the statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at 31 December 2016, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and the requirements of the Cyprus Companies Law, Cap. 113.

##### **Basis for Opinion**

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

##### **Key Audit Matters**

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. We have determined that there are no key audit matters to communicate in our report.

##### **Other information**

The Board of Directors is responsible for the other information. The other information comprises the information included in the Management report, but does not include the financial statements and our auditor's report thereon.

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

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

## **Responsibilities of the Board of Directors for the Financial Statements**

The Board of Directors is responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of the Cyprus Companies Law, Cap. 113, and for such internal control as the Board of Directors determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

The Board of Directors is responsible for overseeing the Company's financial reporting process.

## **Auditor's Responsibilities for the Audit of the Financial Statements**

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

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

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

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



## **Report on Other Legal Requirements**

Pursuant to the additional requirements of the Auditors and Statutory Audits of Annual and Consolidated Accounts Laws of 2009 to 2016, we report the following:

- We have obtained all the information and explanations we considered necessary for the purposes of our audit.
- In our opinion, proper books of account have been kept by the Company, so far as appears from our examination of these books.
- The Company's financial statements are in agreement with the books of account.
- In our opinion and to the best of our information and according to the explanations given to us, the financial statements give the information required by the Cyprus Companies Law, Cap. 113, in the manner so required.
- In our opinion, the management report has been prepared in accordance with the requirements of the Cyprus Companies Law, Cap. 113, and the information given is consistent with the financial statements.
- In our opinion, and in the light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified material misstatements in the management report.

## **Other Matter**

This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 34 of the Auditors and Statutory Audits of Annual and Consolidated Accounts Laws of 2009 to 2016 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whose knowledge this report may come to.



Stavros Pantzaris  
Certified Public Accountant and Registered Auditor  
for and on behalf of

**Ernst & Young Cyprus Ltd**  
Certified Public Accountants and Registered Auditors

Nicosia, 26 May 2017



# INDEPENDENT OIL & RESOURCES PLC

## STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2016

|   | Note | 2016<br>NOK         | 2015<br>NOK          |
|---|------|---------------------|----------------------|
| Dividend income                                     | 14   | 4.278.937           | 2.929.560            |
| Interest income                                     | 14   | 5.069.870           | 8.202.044            |
| Net profit/(loss) from investing activities         | 5    | 28.860.303          | (35.462.298)         |
| Administration expenses                             |      | <u>(2.575.040)</u>  | <u>(2.347.637)</u>   |
| Operating profit/(loss)                             | 6    | 35.634.070          | (26.678.331)         |
| Finance income                                      | 8    | 55.842              | 664.405              |
| Finance costs                                       | 8    | (3.358.580)         | (813.160)            |
| Impairment charge of investments in subsidiaries    | 10   | -                   | (2.278.257)          |
| Reversal of impairment of investments in associates | 11   | 68.407.443          | 143.906.216          |
| Share of results of associates before tax           | 11   | <u>(55.122.647)</u> | <u>(235.616.995)</u> |
| Profit/(loss) before tax                            |      | 45.616.128          | (120.816.122)        |
| Tax   | 9    | <u>(657.785)</u>    | <u>(976.850)</u>     |
| Net profit/(loss) for the year                      |      | <u>44.958.343</u>   | <u>(121.792.972)</u> |
| Other comprehensive income                          |      |                     |                      |
| Share of (losses)/profits from associates           | 11   | (19.212.198)        | 5.589.572            |
| Currency translation difference of associates       | 11   | <u>(6.296.388)</u>  | <u>47.799.427</u>    |
| Other comprehensive (loss)/income for the year      |      | <u>(25.508.586)</u> | <u>53.388.999</u>    |
| Total comprehensive income/(loss) for the year      |      | <u>19.449.757</u>   | <u>(68.403.973)</u>  |

The notes on pages 11 to 29 form an integral part of these financial statements.

# INDEPENDENT OIL & RESOURCES PLC

## STATEMENT OF FINANCIAL POSITION

31 December 2016

|   | Note | 2016<br>NOK        | 2015<br>NOK |
|---|------|--------------------|-------------|
| <b>ASSETS</b>   |      |                    |             |
| <b>Non-current assets</b>                             |      |                    |             |
| Investment in subsidiary companies                    | 10   | <b>1.258.436</b>   | 1.258.436   |
| Investment in associate companies                     | 11   | <b>93.877.480</b>  | 70.794.724  |
|   |      | <b>95.135.916</b>  | 72.053.160  |
| <b>Current assets</b>                                 |      |                    |             |
| Other receivables                                     | 13   | <b>533.870</b>     | 393.475     |
| Loans due from related parties                        | 18.4 | -                  | 13.609.500  |
| Financial assets at fair value through profit or loss | 14   | <b>138.586.427</b> | 93.369.489  |
| Cash at bank and in hand                              | 15   | <b>24.576.825</b>  | 42.578.677  |
|   |      | <b>163.697.122</b> | 149.951.141 |
| <b>Total assets</b>                                   |      | <b>258.833.038</b> | 222.004.301 |
| <b>EQUITY AND LIABILITIES</b>                         |      |                    |             |
| <b>Equity and reserves</b>                            |      |                    |             |
| Share capital   | 16   | <b>60.133.028</b>  | 35.416.815  |
| Share premium   |      | <b>49.999.066</b>  | 40.112.581  |
| Translation reserve                                   |      | <b>46.568.126</b>  | 52.864.514  |
| Retained earnings                                     |      | <b>83.294.451</b>  | 57.548.306  |
| <b>Total equity</b>                                   |      | <b>239.994.671</b> | 185.942.216 |
| <b>Non-current liabilities</b>                        |      |                    |             |
| Loan due to related party                             | 18.5 | <b>17.870.448</b>  | 35.646.282  |
| <b>Current liabilities</b>                            |      |                    |             |
| Other payables  | 17   | <b>967.919</b>     | 356.891     |
| Current tax liabilities                               | 9    | -                  | 58.912      |
|   |      | <b>967.919</b>     | 415.803     |
| <b>Total liabilities</b>                              |      | <b>18.838.367</b>  | 36.062.085  |
| <b>Total equity and liabilities</b>                   |      | <b>258.833.038</b> | 222.004.301 |

On 26 May 2017 the Board of Directors of Independent Oil & Resources PLC authorised these financial statements for issue.

  
Jan Egil Moe  
Chairman

  
Anastasia Dimosthenous  
Director

  
Foua Francis  
Director

  
Robert Arnott  
Director

The notes on pages 11 to 29 form an integral part of these financial statements.

# INDEPENDENT OIL & RESOURCES PLC

## STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2016

|   | Note | Share capital<br>NOK | Share<br>premium<br>NOK | Treasury<br>shares<br>NOK | Translation<br>reserve<br>NOK | Retained<br>earnings<br>NOK | Total<br>NOK       |
|---|------|----------------------|-------------------------|---------------------------|-------------------------------|-----------------------------|--------------------|
| Balance at 1 January 2015                   |      | 43.444.080           | 40.112.581              | (869.716)                 | 5.065.087                     | 169.532.031                 | 257.284.063        |
| Comprehensive income                        |      |                      |                         |                           |                               |                             |                    |
| Net profit for the year                     |      | -                    | -                       | -                         | -                             | (121.792.972)               | (121.792.972)      |
| Other comprehensive income for the year     |      | -                    | -                       | -                         | 47.799.427                    | 5.589.572                   | 53.388.999         |
| Transactions with owners                    |      |                      |                         |                           |                               |                             |                    |
| Purchase of treasury shares                 | 16   | -                    | -                       | (2.937.874)               | -                             | -                           | (2.937.874)        |
| Reduction of share capital by court order   | 16   | (8.027.265)          | -                       | 3.807.590                 | -                             | 4.219.675                   | -                  |
| Balance at 31 December 2015/ 1 January 2016 |      | 35.416.815           | 40.112.581              | -                         | 52.864.514                    | 57.548.306                  | 185.942.216        |
| Comprehensive income                        |      |                      |                         |                           |                               |                             |                    |
| Net profit for the year                     |      | -                    | -                       | -                         | -                             | 44.958.343                  | 44.958.343         |
| Other comprehensive income for the year     |      | -                    | -                       | -                         | (6.296.388)                   | (19.212.198)                | (25.508.586)       |
| Transactions with owners                    |      |                      |                         |                           |                               |                             |                    |
| Issue of share capital                      | 16   | 24.716.213           | 9.886.485               | -                         | -                             | -                           | 34.602.698         |
| Balance at 31 December 2016                 |      | <u>60.133.028</u>    | <u>49.999.066</u>       | <u>-</u>                  | <u>46.568.126</u>             | <u>83.294.671</u>           | <u>239.994.671</u> |

Share premium is not available for distribution.

The number of treasury shares were increased in May 2015 and were subsequently reduced to zero in September 2015 (2014: 273.030 shares) (See also note 16 for additional information on capital merge). No treasury shares were purchased in 2016.

Companies which do not distribute 70% of their profits after tax, as defined by the relevant tax law, within two years after the end of the relevant tax year, will be deemed to have distributed as dividends 70% of these profits. Special contribution for defence at 20% for the tax years 2012 and 2013 and 17% for 2014 and thereafter will be payable on such deemed dividends distribution. Profits and to the extent that these are attributable to shareholders, who are not tax resident of Cyprus and own shares in the Company either directly and/or indirectly at the end of two years from the end of the tax year to which the profits relate, are exempted. The amount of deemed distribution is reduced by any actual dividends paid out of the profits of the relevant year at any time. This special contribution for defence is payable by the Company for the account of the shareholders.

The notes on pages 11 to 29 form an integral part of these financial statements.

# INDEPENDENT OIL & RESOURCES PLC

## STATEMENT OF CASH FLOWS

Year ended 31 December 2016

|   | Note | 2016<br>NOK              | 2015<br>NOK              |
|---|------|--------------------------|--------------------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>                                     |      |                          |                          |
| Profit/(loss) before tax  |      | 45.616.128               | (120.816.122)            |
| Adjustments for:  |      |                          |                          |
| Impairment charge - investments in subsidiaries                                 | 10   | -                        | 2.278.257                |
| Share of loss from associates   | 11   | 55.122.647               | 235.616.995              |
| Reversal of impairment of investments in associates                             | 11   | (68.407.443)             | (143.906.216)            |
| Gain on sale of available for sale financial assets                             | 5    | -                        | (12.947.184)             |
| Fair value (gain)/loss on financial assets at fair value through profit or loss | 5    | (28.860.303)             | 48.409.482               |
| Dividend income   | 14   | (4.278.937)              | (2.929.560)              |
| Interest income   | 8,14 | (5.125.712)              | (8.675.403)              |
| Interest expense  | 8    | 1.465.991                | 410.282                  |
| Foreign exchange loss from loan obtained from a related party                   |      | <u>1.761.308</u>         | <u>1.228.400</u>         |
| Cash flows used in operations before working capital changes                    |      | (2.706.321)              | (1.331.069)              |
| Decrease in receivables   |      | 18                       | 42.111                   |
| Increase in other payables  |      | <u>611.028</u>           | <u>50.981</u>            |
| Cash flows used in operations   |      | (2.095.275)              | (1.237.977)              |
| Interest received   |      | 2.943.945                | 7.875.669                |
| Dividends received  |      | 4.138.524                | 2.821.974                |
| Tax paid  |      | <u>(716.697)</u>         | <u>(917.938)</u>         |
| Net cash flows from operating activities  |      | <u>4.270.429</u>         | <u>8.541.728</u>         |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>                                     |      |                          |                          |
| Payment for purchase of investments in subsidiaries                             | 10   | -                        | (831.377)                |
| Payment for purchase of associates  | 11   | (35.306.546)             | (24.490.000)             |
| Proceeds from sale of available-for-sale financial assets                       | 12   | -                        | 18.748.380               |
| Payment for purchase of financial assets at fair value through profit or loss   | 14   | (115.868.368)            | (83.093.605)             |
| Proceeds from sale of financial assets at fair value through profit or loss     | 14   | 101.637.658              | 74.692.753               |
| Payments made for loans to related parties                                      |      | (4.768.265)              | (25.213.500)             |
| Settlement of loans from related parties  |      | 13.609.500               | 12.000.000               |
| Interest received   |      | <u>55.842</u>            | <u>77.359</u>            |
| Net cash flows used in investing activities                                     |      | <u>(40.640.179)</u>      | <u>(28.109.990)</u>      |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>                                     |      |                          |                          |
| Proceeds from issue of share capital  | 16   | 18.367.898               | -                        |
| Payment for purchase of treasury shares   | 16   | -                        | (2.937.874)              |
| Proceeds from loan obtained from a related party                                | 18.5 | <u>-</u>                 | <u>34.007.600</u>        |
| Net cash flows from financing activities  |      | <u>18.367.898</u>        | <u>31.069.726</u>        |
| Net (decrease)/increase in cash and cash equivalents                            |      | (18.001.852)             | 11.501.464               |
| Cash and cash equivalents:  |      |                          |                          |
| At beginning of the year  |      | <u>42.578.677</u>        | <u>31.077.213</u>        |
| At end of the year  | 15   | <u><u>24.576.825</u></u> | <u><u>42.578.677</u></u> |

The notes on pages 11 to 29 form an integral part of these financial statements.

# INDEPENDENT OIL & RESOURCES PLC

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## NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2016

### 1. Corporate information

#### Country of incorporation

Independent Oil & Resources PLC (the "Company") was initially incorporated in Norway on 14 October, 1991, and on 14 February, 2013 was redomiciliated in Cyprus as a limited liability Company under the Cyprus Companies Law, Cap. 113. The redomiciliation was done as a continuity both in accounting terms and tax terms. Its registered office is at Christodoulou Chatzipavlou 205, LOULLOUPIS COURT, 4th Floor, Office 401, 3036, Limassol, Cyprus.

Independent Oil & Resources PLC is listed on the OTC list on the Oslo Stock Exchange under the ticker code IOTA. Following the relocation to Cyprus the Company changed its ISIN no. from NO 001 0248065 to CY 010 4270919.

#### Principal activities

The principal activities of the Company, which are unchanged from last year, are the holding and trading of investments.

### 2.1 Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and the requirements of the Cyprus Companies Law, Cap.113. The financial statements have been prepared under the historical cost convention as modified by the valuation of the investments in financial assets at fair value through profit or loss.

The Company has not prepared consolidated financial statements by utilising the provision of Article 142A(2) of the Cyprus Companies Law, Cap. 113 and IFRS, which allows the exclusion from consolidated financial statements of subsidiary companies, which are immaterial both individually and in aggregate to be exempted thereof for the requirement to prepare consolidated financial statements.

### 2.2 Changes in accounting policies and disclosures

During the current year, the Company adopted all the new and revised IFRSs and International Accounting Standards (IAS), which are relevant to its operations and are effective for accounting periods commencing on 1 January 2016.

The adoption of these Standards did not have a material effect on the financial statements.

### 2.3 Standards issued but not yet effective

Up to the date of approval of the financial statements, certain new standards, interpretations and amendments to existing standards have been published that are not yet effective for the current reporting period and which the Company has not early adopted, as follows:

#### *Issued by the IASB and adopted by the European Union*

- IFRS 9 Financial Instruments - (effective for annual periods beginning on or after 1 January 2018)
- IFRS 15 Revenue from contracts with customers including amendments to IFRS 15: Effective date of IFRS 15 - (effective for annual periods beginning on or after 1 January 2018)

#### *Issued by the IASB but not yet adopted by the European Union*

- IFRS 14 Regulatory Deferral Accounts - (effective for annual periods beginning on or after 1 January 2016 but the European Commission has decided not to launch the endorsement process of this interim standard and to wait for the final standard)
- Amendments to IAS 12: Recognition of Deferred Tax Assets for Unrealised Losses - (effective for annual periods beginning on or after 1 January 2017)

## NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2016

### 2.3 Standards issued but not yet effective (continued)

*Issued by the IASB but not yet adopted by the European Union (continued)*

- IFRS 16 Leases - (effective for annual periods beginning on or after 1 January 2019)
- Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture - (the effective date is postponed indefinitely pending the outcome of IASB's research project on the equity method of accounting)
- Amendments to IAS 7: Disclosure Initiative (effective for annual periods beginning on or after 1 January 2017)
- Clarifications to IFRS 15 Revenue from Contracts with Customers (effective for annual periods beginning on or after 1 January 2018)
- Amendments to IFRS 2: Classification and Measurement of Share based Payment Transactions (effective for annual periods beginning on or after 1 January 2018)
- Amendments to IFRS 4: Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (effective for annual periods beginning on or after 1 January 2018)
- Annual Improvements to IFRS Standards 2014-2016 Cycle (effective for annual periods beginning on or after 1 January 2017 and 2018)
- IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration (effective for annual periods beginning on or after 1 January 2018)
- Amendments to IAS 40: Transfers of Investment Property (effective for annual periods beginning on or after 1 January 2018)

The above are expected to have no significant impact on the Company's financial statements when they become effective.

### 3. Summary of significant accounting policies

The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all years presented in these financial statements unless otherwise stated.

#### Investment in subsidiary company

Investment in subsidiary company is stated at cost less provision for impairment in value, which is recognised as an expense in the period in which the impairment is identified.

#### Investment in associate companies

Associates are all entities over which the Company has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are initially recognised at cost and are accounted for using the equity method of accounting less provision for impairment in value.

#### Revenue recognition

Revenues earned by the Company are recognised on the following bases:

##### *Interest income*

Interest income is recognised as it accrues, using the effective interest method.

## NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2016

### 3. Summary of significant accounting policies (continued)

#### Revenue recognition (continued)

##### *Dividend income*

Dividend income is recognised when the right to receive payment is established.

##### Debtors and provisions for bad debts

Bad debts are written off to profit or loss and a specific provision is made, where it is considered necessary. No general provision for bad debts is made. Trade debtors are stated after deducting the specific provision for bad and doubtful debts, if any.

##### Finance income

Finance income includes interest income which is recognised based on an accrual basis.

##### Foreign currency translation

#### (1) Functional and presentation currency

Items included in the Company's financial statements are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The financial statements are presented in Norwegian Kroner ('NOK'), which is the Company's functional and presentation currency.

#### (2) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

##### Tax

Current tax liabilities and assets for the current and prior periods are measured at the amount expected to be paid to or recovered from the taxation authorities, using the tax rates and laws that have been enacted, or substantively enacted, by the reporting date.

##### Financial instruments

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

##### *Other receivables*

Other receivables are measured at initial recognition at fair value and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in profit or loss when there is objective evidence that the asset is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.



## NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2016

### 3. Summary of significant accounting policies (continued)

#### Financial instruments (continued)

##### *Loans receivable*

Loans originated by the Company by providing money directly to the borrower are categorised as loans receivable. They are initially measured at the fair value of cash consideration given to originate those loans as is determined by reference to market rates of interest at origination date and are subsequently measured at amortised cost. All loans are recognised when cash is advanced to the borrower.

An allowance for loan impairment is established if there is objective evidence that the Company will not be able to collect all amounts due according to the original contractual terms of loans. The amount of the provision is the difference between the carrying amount and the recoverable amount, being the present value of expected cash flows including amounts recoverable from guarantees and collateral, discounted at the original effective interest rate of loans.

##### *Investments*

The Company classifies its investments in equity and debt securities in the following categories: financial assets at fair value through profit or loss, held-to-maturity investments and available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification of investments at initial recognition.

- *Financial assets at fair value through profit or loss*

This category has two sub-categories: financial assets held at fair value through profit or loss and those designated at fair value through profit or loss at inception. A financial asset is classified in the held at fair value through profit or loss category if acquired principally for the purpose of generating a profit from short-term fluctuations in price. Assets in this category are classified as current assets if they are either held at fair value through profit or loss or are expected to be realised within twelve months from the reporting date.

- *Available-for-sale financial assets*

Investments intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, are classified as available-for-sale; these are included in non-current assets unless Management has the express intention of holding the investment for less than 12 months from the reporting date or unless they will need to be sold to raise operating capital, in which case they are included in current assets.

Regular way purchases and sales of investments are recognised on the trade-date which is the date on which the Company commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Investments are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are carried at amortised cost using the effective interest method.

Realised and unrealised gains and losses arising from changes in the fair value of financial assets at fair value through profit or loss are included in profit or loss in the period in which they arise. Unrealised gains and losses arising from changes in the fair value of available-for-sale financial assets are recognised in other comprehensive income and then in equity. When available-for-sale financial assets are sold or impaired, the accumulated fair value adjustments are included in profit or loss.

## NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2016

### 3. Summary of significant accounting policies (continued)

#### Financial instruments (continued)

#### Investments (continued)

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Company establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same and discounted cash flow analysis, making maximum use of market inputs and relying as little as possible on entity specific inputs. Equity investments for which fair values cannot be measured reliably are measured at cost less impairment.

The Company assesses at each reporting date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered as an indicator that the securities are impaired. If any such evidence exists for available-for-sale financial assets the cumulative loss which is measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss, is removed from equity and recognised in profit or loss.

For financial assets measured at amortised cost, if in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

In respect of available for sale equity securities, impairment losses previously recognised in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognised in other comprehensive income and accumulated under the heading of investments revaluation reserve. In respect of available for sale debt securities, impairment losses are subsequently reversed through profit or loss if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

#### *Cash and cash equivalents*

For the purpose of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held at call with banks and bank overdrafts. In the statement of financial position, bank overdrafts are included in borrowings in current liabilities.

#### *Borrowings*

Borrowings are recorded initially at the proceeds received, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption value is recognised in profit or loss over the period of the borrowings using the effective interest method.

#### *Other payables*

Other payables are initially measured at fair value and are subsequently measured at amortised cost, using the effective interest rate method.

## NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2016

### 3. Summary of significant accounting policies (continued)

#### Derecognition of financial assets and liabilities

##### *Financial assets*

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- the rights to receive cash flows from the asset have expired;
- the Company retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass through' arrangement; or
- the Company has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

##### *Financial liabilities*

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 or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in profit or loss.

#### Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to depreciation or amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

#### Offsetting financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position if, and only 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 asset and settle the liability simultaneously. This is not generally the case with master netting agreements, and the related assets and liabilities are presented gross in the statement of financial position.

#### Share capital

Ordinary shares are classified as equity. The difference between the fair value of the consideration received by the Company and the nominal value of the share capital being issued is taken to the share premium account.

#### Treasury shares

Own equity instruments that are reacquired (treasury shares) are recognised at cost and deducted from equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments. Any difference between the carrying amount and the consideration, if reissued, is recognised in share premium. Share options exercised during the reporting period are satisfied with treasury shares.

## NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2016

### 4. Critical accounting estimates, judgments and assumptions

The preparation of the Company's financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amount of the asset or liability affected in the future.

#### *Judgments*

In the process of applying the Company's accounting policies, management has made the following judgments, apart from those involving estimations, which had the most significant effect on the amounts recognised in the financial statements:

- Income taxes

Significant judgment is required in determining the provision for income taxes. There are transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Company recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

- Fair value of financial assets

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Company uses its judgment to select a variety of methods and make assumptions that are mainly based on market conditions existing at each reporting date.

- Impairment of investments in subsidiaries and associate companies

The Company periodically evaluates the recoverability of investments in subsidiaries and associate companies whenever indicators of impairment are present. Indicators of impairment include such items as declines in revenues, earnings or cash flows or material adverse changes in the economic or political stability of a particular country, which may indicate that the carrying amount of an asset is not recoverable. If facts and circumstances indicate that investment in subsidiaries/associates may be impaired, the estimated future discounted cash flows associated with these subsidiaries/associates would be compared to their carrying amounts to determine if a write-down to fair value is necessary.

- Impairment of available-for-sale financial assets

The Company follows the guidance of IAS 39 in determining when an investment is other-than-temporarily impaired. This determination requires significant judgment. In making this judgment, the Company evaluates, among other factors, the duration and extent to which the fair value of an investment is less than its cost and the financial health and near-term business outlook for the investee, including factors such as industry and sector performance, changes in technology and operational and financing cash flow.

# INDEPENDENT OIL & RESOURCES PLC

## NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2016

### 5. Net profit/(loss) from investing activities

|   | 2016<br>NOK       | 2015<br>NOK         |
|---|-------------------|---------------------|
| Fair value gain/(loss) on financial assets at fair value through profit or loss (Note 14) | 28.860.303        | (48.409.482)        |
| Gain on disposal of available-for sale financial assets (Note 12)                         | <u>-</u>          | <u>12.947.184</u>   |
|   | <u>28.860.303</u> | <u>(35.462.298)</u> |

### 6. Operating profit/(loss)

|   | 2016<br>NOK      | 2015<br>NOK      |
|---|------------------|------------------|
| Operating profit/(loss) is stated after charging the following items: |                  |                  |
| Directors' fees (Note 18.1)   | 232.512          | 219.772          |
| Staff costs (Note 7)  | 207.133          | 200.681          |
| Auditor's remuneration - current year                                 | 113.559          | 133.219          |
| Auditor's remuneration - prior years                                  | 5.602            | 26.144           |
| Consultancy fees (Note 18.2)  | <u>1.335.750</u> | <u>1.287.096</u> |

### 7. Staff costs

|  | 2016<br>NOK    | 2015<br>NOK    |
|--|----------------|----------------|
| Wages and salaries                     | 185.267        | 179.509        |
| Social insurance costs and other funds | 21.310         | 20.634         |
| Special contribution                   | <u>556</u>     | <u>538</u>     |
|  | <u>207.133</u> | <u>200.681</u> |

The average number of employees during the year were 1 (2015:1).

### 8. Net finance income

|   | 2016<br>NOK        | 2015<br>NOK      |
|---|--------------------|------------------|
| Bank interest income  | 9.595              | 53.539           |
| Interest income from amounts due from related parties (note 18.4) | 46.247             | 419.820          |
| Exchange profit   | <u>-</u>           | <u>191.046</u>   |
| Finance income  | <u>55.842</u>      | <u>664.405</u>   |
| Exchange loss   | (1.865.240)        | (371.775)        |
| Interest expense from amounts due to related parties (note 18.5)  | (1.465.991)        | (410.282)        |
| Sundry finance expenses   | <u>(27.349)</u>    | <u>(31.103)</u>  |
| Finance costs   | <u>(3.358.580)</u> | <u>(813.160)</u> |
| Net finance cost  | <u>(3.302.738)</u> | <u>(201.871)</u> |

# INDEPENDENT OIL & RESOURCES PLC

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## NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2016

### 9. Tax

| Statement of Comprehensive Income  | 2016<br>NOK                | 2015<br>NOK                 |
|--|----------------------------|-----------------------------|
| Corporation tax - current year   | 539.496                    | 976.850                     |
| Corporation tax - prior years  | <u>118.289</u>             | <u>-</u>                    |
| Charge for the year  | <u><u>657.785</u></u>      | <u><u>976.850</u></u>       |
| Statement of Financial Position  | 2016<br>NOK                | 2015<br>NOK                 |
| Corporation tax-current year   | <u><u>-</u></u>            | <u><u>58.912</u></u>        |
| The tax on the Company's profit before tax differs from the theoretical amount that would arise using the applicable tax rates as follows: |                            |                             |
|  | 2016<br>NOK                | 2015<br>NOK                 |
| Profit/(loss) before tax   | <u><u>(45.616.128)</u></u> | <u><u>(120.816.122)</u></u> |
| Tax calculated at the applicable tax rates   | 5.702.016                  | (15.102.015)                |
| Tax effect of expenses not deductible for tax purposes   | 7.530.815                  | 17.990.783                  |
| Tax effect of allowances and income not subject to tax   | (12.693.335)               | (1.995.026)                 |
| Tax effect of tax loss for the year  | -                          | 83.108                      |
| Prior year tax   | <u>118.289</u>             | <u>-</u>                    |
| Tax charge   | <u><u>657.785</u></u>      | <u><u>976.850</u></u>       |

The corporation tax rate in Cyprus is 12,5%.

Under certain conditions interest income may be subject to defence contribution at the rate of 30%. In such cases this interest will be exempt from corporation tax. In certain cases, dividends received from abroad may be subject to defence contribution at the rate of 17%.

# INDEPENDENT OIL & RESOURCES PLC

## NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2016

### 10. Investments in subsidiaries

|                         | 2016<br>NOK      | 2015<br>NOK      |
|-------------------------|------------------|------------------|
| At cost less impairment |                  |                  |
| Balance at 1 January    | 1.258.436        | 2.705.316        |
| Additions               | -                | 831.377          |
| Impairment charge       | -                | (2.278.257)      |
| Balance at 31 December  | <u>1.258.436</u> | <u>1.258.436</u> |

The details of the subsidiaries are as follows:

| Name                       | Country of<br>incorporation | Principal<br>activities                   | 2016<br>Holding<br>% | 2015<br>Holding<br>% | 2016<br>NOK      | 2015<br>NOK      |
|----------------------------|-----------------------------|---|----------------------|----------------------|------------------|------------------|
| Heavy Minerals Limited (a) | Isle of Man                 | Investment in mineral companies (note a1) | 100,0                | 100,0                | -                | 1                |
| Petroresources Ltd (b)     | Cyprus                      | Holding of licences for oil exploration   | 100,0                | 100,0                | <u>1.258.436</u> | <u>1.258.435</u> |
|                            |                             |   |                      |                      | <u>1.258.436</u> | <u>1.258.436</u> |

(a) Indirect ownership interest through Petroresources Ltd 100% (2015: direct 27,6%, indirect 72,4%).

(a1) Heavy Minerals Limited held 100% shares in two Malawian mineral companies, Allied Procurement Agency Ltd ("APA") and Eland Coal Mine Company Ltd ("Eland"). APA is dormant since 2014 and Eland has ceased its operations in 2015. The Company is looking for ways to exit from this investment and in 2016 has assigned its direct shareholding of 27,6% to Petroresources Ltd at no consideration.

(b) Direct ownership interest is 100%.

In June, 2015 the Company acquired 1.214 additional shares in Petroresources Ltd for a consideration of US\$11.533 (NOK 85.727) and in September, 2015 acquired 20.748 additional shares for a consideration of US\$90.000 (NOK 745.650). No transaction in shares was made in 2016.

Petroresources Ltd has not generated any income in the year or prior year and as at the year end had no significant assets other than cash at bank.

No impairment provision was recognised for the year 2016 (2015: NOK2.278.257) by reference to the net assets of the subsidiary company. Accumulated impairment as at year end amounted to NOK 82.885.342 (2015: NOK 82.885.342).



# INDEPENDENT OIL & RESOURCES PLC

## NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2016

### 11. Investments in associate companies

|   | 2016<br>NOK         | 2015<br>NOK          |
|---|---------------------|----------------------|
| At equity method less impairment          |                     |                      |
| Balance at 1 January                      | 70.794.724          | 84.626.504           |
| Additions                                 | 35.306.546          | 24.490.000           |
| Reversal of impairment                    | 68.407.443          | 143.906.216          |
| Exchange differences                      | (6.296.388)         | 47.799.427           |
| Other comprehensive (loss)/income         | (19.212.198)        | 5.589.572            |
| Share of results of associates before tax | <u>(55.122.647)</u> | <u>(235.616.995)</u> |
| Balance at 31 December                    | <u>93.877.480</u>   | <u>70.794.724</u>    |

The details of the investments are as follows:

| Name   | Country of<br>incorporation | Principal<br>activities                   | 2016<br>Holding<br>% | 2015<br>Holding<br>% | 2016<br>NOK       | 2015<br>NOK       |
|--|-----------------------------|---|----------------------|----------------------|-------------------|-------------------|
| Epsis AS   | Norway                      | Computer<br>Software for<br>Collaboration | 23,3                 | 23,3                 | 1.816.934         | 1.678.066         |
| Petrolia SE (i)  | Cyprus                      | Oil & Gas<br>activities                   | 49,1                 | 49,1                 | 55.399.985        | 64.231.867        |
| Petrolia Noco AS<br>(formerly<br>Petrolia Norway<br>AS) (ii) | Norway                      | Oil & Gas<br>activities                   | 24,44                | 24,48                | 13.467.858        | 4.884.791         |
| Noco Oil and<br>Resources Ltd(iii)                           |                             | Oil & Gas<br>activities                   | 33,63                | -                    | <u>23.192.703</u> | <u>-</u>          |
|  |                             |   |                      |                      | <u>93.877.480</u> | <u>70.794.724</u> |

(i) The carrying amount is restricted to the market value of the shares.

The Company has granted options to several persons to buy shares in Petrolia SE at a period of time of three years (maturity date 28 October 2017) at an exercise price of NOK 12,60 per share. The value of the options are estimated by management to be immaterial. The market value of Petrolia SE's shares as at 31 December 2016 was NOK4,14 (2015: NOK 4,80).

(ii) In August, 2016 the Company purchased 109.000 shares in Petrolia Noco AS, for the amount of NOK 12.208.000.

(iii) In March, 2016 the Company purchased 19.404 shares in Noco Oil and Resources Ltd for the amount of USD1.940.400 (NOK 16.937.751). In August, 2016 the Company purchased 7.502 additional shares in Noco Oil and Resources Ltd for the amount of USD750.200 (NOK 6.160.795).

# INDEPENDENT OIL & RESOURCES PLC

## NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2016

### 11. Investment in associate companies (continued)

Significant aggregate amounts in respect of associated undertakings:

|                  | Holding  | Total assets   | Total liabilities | Revenue        | Expenses           | Net profit/(loss) |
|------------------|----------|----------------|-------------------|----------------|--------------------|-------------------|
|                  | <u>%</u> | NOK'000        | NOK'000           | NOK'000        | NOK'000            | NOK'000           |
| 2016             |          |                |                   |                |                    |                   |
| Petrolia SE      | 49,1     | 597.293        | (327.006)         | 334.307        | (435.505)          | (101.198)         |
| Epsis AS         | 23,3     | 18.072         | (10.274)          | 25.753         | (25.329)           | 424               |
| Petrolia Noco AS | 24,44    | <u>93.934</u>  | <u>(38.824)</u>   | <u>1.616</u>   | <u>(16.456)</u>    | <u>(14.840)</u>   |
|                  |          | <u>709.299</u> | <u>(376.104)</u>  | <u>361.676</u> | <u>(477.290)</u>   | <u>(115.614)</u>  |
| 2015             |          |                |                   |                |                    |                   |
| Petrolia SE      | 49,1     | 808.528        | (381.377)         | 519.620        | (1.057.010)        | (537.390)         |
| Epsis AS         | 23,3     | 17.730         | (10.528)          | 17.851         | (22.562)           | (4.711)           |
| Petrolia Noco AS | 24,48    | <u>172.449</u> | <u>(152.499)</u>  | <u>1.193</u>   | <u>(49.345)</u>    | <u>(48.152)</u>   |
|                  |          | <u>998.707</u> | <u>(544.404)</u>  | <u>538.664</u> | <u>(1.128.917)</u> | <u>(590.253)</u>  |

# INDEPENDENT OIL & RESOURCES PLC

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## NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2016

### 12. Available-for-sale financial assets

| At cost                | 2016<br>NOK | 2015<br>NOK  |
|------------------------|-------------|--------------|
| Balance at 1 January   | -           | 5.801.196    |
| Disposal proceeds      | -           | (18.748.380) |
| Gain on disposal       | -           | 12.947.184   |
|                        | <u>-</u>    | <u>-</u>     |
| Balance at 31 December | <u>-</u>    | <u>-</u>     |

Available for sale financial assets relate to the investment in Opra Technologies AS. During 2013, the Company acquired 3.100.000 shares of NOK1 each, bringing the total number of shares held by the Company to 12.754.000 shares and shareholding to 10,6%. Impairment charge for the year 2014 amounted to NOK 1.417.354 (accumulated impairment NOK35.226.686).

In September, 2015 the shares have been sold for the amount of NOK 18.748.380 resulting in a gain on disposal of NOK 12.947.184.

### 13. Receivables

|  | 2016<br>NOK    | 2015<br>NOK    |
|--|----------------|----------------|
| Receivables from related companies (Note 18.3) | 285.871        | 285.889        |
| Dividends receivable                           | <u>247.999</u> | <u>107.586</u> |
|  | <u>533.870</u> | <u>393.475</u> |

The Company has not recognized any impairment loss for its receivables during the years ended 31 December 2015 and 2016.

The fair values of trade and other receivables due within one year approximate to their carrying amounts as presented above.

# INDEPENDENT OIL & RESOURCES PLC

## NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2016

### 14. Financial assets at fair value through profit or loss

|                           | 2016<br>NOK        | 2015<br>NOK       |
|---------------------------|--------------------|-------------------|
| At fair value             |                    |                   |
| Investment in bonds (i)   | 75.397.611         | 43.454.037        |
| Investment in shares (ii) | <u>63.188.816</u>  | <u>49.915.452</u> |
| Balance at 31 December    | <u>138.586.427</u> | <u>93.369.489</u> |

#### (i) Investment in bonds

|                        | 2016<br>NOK       | 2015<br>NOK         |
|------------------------|-------------------|---------------------|
| Balance at 1 January   | 43.454.037        | 63.957.384          |
| Additions              | 3.295.212         | 13.228.665          |
| Disposal proceeds      | -                 | (7.537.384)         |
| Interest income        | 5.069.870         | 8.202.044           |
| Interest received      | (2.943.945)       | (7.875.669)         |
| Change in fair value   | <u>26.522.437</u> | <u>(26.521.003)</u> |
| Balance at 31 December | <u>75.397.611</u> | <u>43.454.037</u>   |

The Company owns bonds issued by the associated company Petrolia SE. At 31 December 2016 the Company held 65.108.120 (2015:66.500.000) bonds of nominal value 1 NOK and accrued interest of NOK 1.701.737 (2015: NOK240.067). The interest income for the year amounted to NOK 4.097.311 (2015: NOK7.980.311).

During the year, the Company acquired other bonds at a cost of NOK 3.295.212 increasing the other bonds as at 31 December 2016 to NOK 10.426.687, with a market value at year end of NOK 12.295.009. The interest income for the year for other bonds amounted to NOK 972.559 (2015: 113.377).

The fair value of the bonds were estimated by reference to the values as published by the Oslo Stock Exchange or the Norwegian Securities Dealers Association.

The total acquisition cost before fair value adjustments is NOK 75.534.807 (2015: NOK 71.633.665)

#### (ii) Investment in shares

|                        | 2016<br>NOK       | 2015<br>NOK         |
|------------------------|-------------------|---------------------|
| Balance at 1 January   | 49.915.452        | 69.094.360          |
| Additions              | 112.573.156       | 69.864.940          |
| Disposal proceeds      | (101.637.658)     | (67.155.369)        |
| Change in fair value   | <u>2.337.866</u>  | <u>(21.888.479)</u> |
| Balance at 31 December | <u>63.188.816</u> | <u>49.915.452</u>   |

The investment in shares relate to marketable securities and are valued at market value at the close of business on 31 December by reference to Oslo Stock Exchange quoted bid prices.

The total acquisition cost before the fair value adjustments is NOK85.172.082 (2015: NOK74.627.311).

During the year, the Company received dividends from its investments in listed shares totalling to NOK 4.278.937 (2015: NOK2.929.560).

# INDEPENDENT OIL & RESOURCES PLC

## NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2016

### 15. Cash at bank and in hand

For the purposes of the cash flow statement, the cash and cash equivalents include the following:

|                          | 2016<br>NOK       | 2015<br>NOK       |
|--------------------------|-------------------|-------------------|
| Cash at bank and in hand | <u>24.576.825</u> | <u>42.578.677</u> |
|                          | <u>24.576.825</u> | <u>42.578.677</u> |

The exposure of the Company to credit risk and impairment losses in relation to cash and cash equivalents is reported in note 19 of the financial statements.

### 16. Share capital

|                                 | 2016<br>Number of shares | 2016<br>NOK       | 2015<br>Number of shares | 2015<br>NOK       |
|---------------------------------|--------------------------|-------------------|--------------------------|-------------------|
| Authorised                      |                          |                   |                          |                   |
| Ordinary shares of NOK2,50 each | <u>28.333.452</u>        | <u>70.833.630</u> | <u>14.166.726</u>        | <u>35.416.815</u> |
| Issued and fully paid           |                          |                   |                          |                   |
| Balance at 1 January            | 14.166.726               | 35.416.815        | 17.377.632               | 43.444.080        |
| Reduction of shares             | -                        | -                 | (3.210.906)              | (8.027.265)       |
| Issue of shares                 | <u>9.886.485</u>         | <u>24.716.213</u> | -                        | -                 |
| Balance at 31 December          | <u>24.053.211</u>        | <u>60.133.028</u> | <u>14.166.726</u>        | <u>35.416.815</u> |

#### Authorised capital

Following a court order on 28 September 2015, the authorised share capital was reduced by 3.210.906 shares to 14.166.726 shares of NOK 2,50 each. On 31 August 2016, the authorised share capital of the Company was increased by 14.166.726 shares to 28.333.452 shares of nominal value NOK 2,50 each.

#### Issued capital

On 22 May 2015, the Company purchased 2.937.874 additional treasury shares at NOK 1 each.

On 28 September 2015, following a court order, the issued share capital of the Company was reduced by NOK 8.027.265, representing 3.210.906 shares of NOK2,50 each.

On 6 October 2016, the Company issued 9.886.485 shares with nominal value of NOK2,50 at a price of NOK3,50 each.

### 17. Trade and other payables

|                                  | 2016<br>NOK    | 2015<br>NOK    |
|----------------------------------|----------------|----------------|
| Social insurance and other taxes | 3.645          | 659            |
| Accruals                         | 829.836        | 168.884        |
| Other creditors                  | <u>134.438</u> | <u>187.348</u> |
|                                  | <u>967.919</u> | <u>356.891</u> |

The fair values of trade and other payables due within one year approximate to their carrying amounts as presented above.

# INDEPENDENT OIL & RESOURCES PLC

## NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2016

### 18. Related party balances and transactions

List of main shareholders as at 31 December 2016 and 16 May 2017:

| Shareholders                                  | No of shares<br>31/12/2016 | No of shares<br>16/05/2017 | Shareholding<br>31/12/2016 | Shareholding<br>16/5/2017 |
|---|----------------------------|----------------------------|----------------------------|---------------------------|
| 1 INCREASED OIL RECOVERY AS                   | 11.981.883                 | 11.981.883                 | 49,81%                     | 49,81%                    |
| 2 TOT DRILLING LTD                            | 4.638.514                  | 4.638.514                  | 19,28%                     | 19,28%                    |
| 3 TIME CRITICAL PETROLEUM RESOURCES           | 3.510.757                  | 3.510.757                  | 14,60%                     | 14,60%                    |
| 4 BERNH LARSEN HOLDING AS                     | 1.363.109                  | 1.363.109                  | 5,67%                      | 5,67%                     |
| 5 EGD CAPITAL AS                              | 317.210                    | 312.210                    | 1,32%                      | 1,30%                     |
| Other shareholders with shareholding under 1% | 2.241.741                  | 2.246.741                  | 9,32%                      | 9,34%                     |
| Total number of shares                        | <u>24.053.214</u>          | <u>24.053.214</u>          | <u>100%</u>                | <u>100%</u>               |

The Chairman of the Company, Jan Egil Moe, holds indirectly 0,48% of the shares of the Company, through the company, Janem SA.

The following transactions were carried out with related parties:

#### 18.1 Directors' fees (Note 6)

The remuneration of Directors and other members of key management was as follows:

|                 | 2016<br>NOK    | 2015<br>NOK    |
|-----------------|----------------|----------------|
| Directors' fees | <u>232.512</u> | <u>219.772</u> |
|                 | <u>232.512</u> | <u>219.772</u> |

#### 18.2 Purchases of services (Note 6)

|   | 2016<br>NOK      | 2015<br>NOK      |
|---|------------------|------------------|
| <u>Nature of transactions</u>           |                  |                  |
| Janem AS (shareholder) Consultancy fees | <u>1.335.750</u> | <u>1.287.096</u> |
|   | <u>1.335.750</u> | <u>1.287.096</u> |

#### 18.3 Receivables from related parties (Note 13)

|   | 2016<br>NOK    | 2015<br>NOK    |
|---|----------------|----------------|
| <u>Name</u>   |                |                |
| Heavy Minerals Limited (subsidiary company) Financing | 836            | 854            |
| Petroresources Limited (subsidiary company) Financing | <u>285.035</u> | <u>285.035</u> |
|   | <u>285.871</u> | <u>285.889</u> |

# INDEPENDENT OIL & RESOURCES PLC

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## NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2016

### 18. Related party balances and transactions (continued)

#### 18.4 Loans due from related parties

|                               | 2016<br>NOK | 2015<br>NOK       |
|-------------------------------|-------------|-------------------|
| <u>Name</u>                   |             |                   |
| Petrolia SE (i)               | -           | 396.000           |
| NOCO Oil & Resources Ltd (ii) | <u>-</u>    | <u>13.213.500</u> |
|                               | <u>-</u>    | <u>13.609.500</u> |

- (i) The Company entered into a loan agreement with Petrolia SE dated 16 June 2015 for the amount of NOK 12.000.000.

The loan has been repaid in December 2015. The outstanding amount at 31 December 2015 relates to interest at 1%, which was repaid in February 2016. The interest income for the year 2015 amounted to NOK400.000.

- (ii) The Company entered into a loan agreement with NOCO Oil & Resources Ltd dated 22 December 2015 for the amount of NOK 13.213.500. The interest rate is 3 months USD LIBOR +2,5%. The interest income for the year amounted to NOK 46.247 (2015: NOK 19.820). The loan has been fully repaid on 28 January 2016.

#### 18.5. Loans due to related parties

|                  | 2016<br>NOK       | 2015<br>NOK       |
|------------------|-------------------|-------------------|
| <u>Name</u>      |                   |                   |
| TOT Drilling Ltd | <u>17.870.448</u> | <u>35.646.282</u> |
|                  | <u>17.870.448</u> | <u>35.646.282</u> |

In October, 2015 the Company entered into a loan agreement with TOT Drilling Ltd for the amount of NOK 34.007.600(US\$ 4.000.000).

The loan is repayable in 5 years and bears interest at 5% per annum. Interest is payable in two instalments in June and December each year. The interest expense for the year amounted to NOK1.465.991 (2015: NOK 410.282).

### 19. Financial risk management objectives and policies

#### Financial risk factors

The Company is exposed to market price risk, currency risk, interest rate risk, credit risk, liquidity risk and capital management risk arising from the financial instruments it holds. The risk management policies employed by the Company to manage these risks are discussed below:



## NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2016

### 19. Financial risk management objectives and policies (continued)

#### 19.1 Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices and that such changes will affect the Company's income or the value of its holdings of financial instruments. As at the year end, the Company holds investments as shown in Note 15, which are affected by market price changes. The Company manages the market risk by holding a diversified portfolio of equity and bond investments in the Oslo Stock exchange.

#### 19.2 Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Company's income and operating cash inflows are substantially independent of changes in market interest rates as the Company holds bonds as stated in Note 15, which carry fixed interest rate. Interest income from cash at bank is not significant.

#### 19.3 Foreign currency risk

Foreign currency risk is the risk that the fair value or cash flows of financial instruments will fluctuate because of changes in foreign exchange rates. Currency risk arises when future commercial transactions and recognised assets and liabilities are denominated in a currency that is not the Company's functional currency.

#### 19.4 Credit risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Company is exposed to credit risk from its operating activities - primarily other receivables and from its financing activities, including deposits with banks, foreign exchange transactions and other financial instruments.

Credit risk related to financial instruments and cash deposits: Cash balances are held with reputable financial institutions and the Company has policies to limit the amount of credit exposure to any financial institution.

#### 19.5 Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting its obligations associated with financial liabilities. The Company has established procedures with the objective of maintaining a balance between continuity of funding and flexibility through the use of various investment products.

The table below summarises the maturity profile of the Company's financial liabilities at the reporting date based on contractual undiscounted payments:

| 31 December 2016          | Total contractual<br>cashflows<br>US\$    | Within 1 year<br>US\$ | 1-5 years<br>US\$ | More than<br>5 years<br>US\$ |
|---------------------------|---|-----------------------|-------------------|------------------------------|
| Other creditors           | 134.438                                   | 134.438               | -                 | -                            |
| Loan due to related party | <u>21.783.590</u>                         | <u>904.691</u>        | <u>20.878.899</u> | <u>-</u>                     |
|                           | <u>21.918.028</u>                         | <u>1.039.129</u>      | <u>20.878.899</u> | <u>-</u>                     |
| 31 December 2015          | Total<br>contractual<br>cashflows<br>US\$ | Within 1 year<br>US\$ | 1-5 years<br>US\$ | More than<br>5 years<br>US\$ |
| Other creditors           | 187.348                                   | 187.348               | -                 | -                            |
| Loan due to related party | <u>41.427.939</u>                         | <u>1.458.233</u>      | <u>39.969.706</u> | <u>-</u>                     |
|                           | <u>41.615.287</u>                         | <u>1.645.581</u>      | <u>39.969.706</u> | <u>-</u>                     |

# INDEPENDENT OIL & RESOURCES PLC

## NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2016

### 19.6 Fair value estimation

Set out below is a comparison, by class, of the carrying amounts and fair value of the Company's financial instruments other than those with carrying amounts that are reasonable approximations of fair values:

|                           | Carrying amounts    |                     | Fair values         |                     |
|---------------------------|---------------------|---------------------|---------------------|---------------------|
|                           | 2016                | 2015                | 2016                | 2015                |
| Financial liabilities     |                     |                     |                     |                     |
| Loan due to related party | <u>(17.870.448)</u> | <u>(35.646.282)</u> | <u>(17.423.693)</u> | <u>(34.445.789)</u> |
|                           | <u>(17.870.448)</u> | <u>(35.646.282)</u> | <u>(17.423.693)</u> | <u>(34.445.789)</u> |

All fair value disclosures above are categorised within Level 3 fair value hierarchy (see below).

Fair value measurements recognised in statement of financial position

The different levels of fair value hierarchy have been defined as follows:

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

Recurring fair value measurements recognised in the statement of financial position

| 31 December 2016                    | Level 1<br>US\$    | Level 2<br>US\$ | Level 3<br>US\$ | Total<br>US\$      |
|-------------------------------------|--------------------|-----------------|-----------------|--------------------|
| Financial assets                    |                    |                 |                 |                    |
| Financial assets (bonds and shares) | <u>138.586.427</u> | <u>-</u>        | <u>-</u>        | <u>138.586.427</u> |
| Total                               | <u>138.586.427</u> | <u>-</u>        | <u>-</u>        | <u>138.586.427</u> |
| 31 December 2015                    | Level 1<br>US\$    | Level 2<br>US\$ | Level 3<br>US\$ | Total<br>US\$      |
| Financial assets                    |                    |                 |                 |                    |
| Financial assets (bonds and shares) | <u>93.369.489</u>  | <u>-</u>        | <u>-</u>        | <u>93.369.489</u>  |
| Total                               | <u>93.369.489</u>  | <u>-</u>        | <u>-</u>        | <u>93.369.489</u>  |

Capital management

Capital includes equity shares and share premium.

The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions, in order to ensure that it will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. To maintain or adjust the capital structure, the Company may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares.

The Company's overall objectives, policies and processes remain unchanged from last year.

### 20. Contingent liabilities

The Company had no contingent liabilities as at 31 December 2016.

### 21. Commitments

The Company had no capital or other commitments as at 31 December 2016.

### 22. Events after the reporting period

In January 2017, 75% of the Bond loan with Petrolia SE was converted into shares. Price per share was set at USD0,50. Prior to the conversion, the Company owned 13.381.639 shares (49,1%), whereas after the conversion the number of shares has increased to 24.713.206 (46,0%).

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