SAN LEON
ENERGY

An independent oil and gas company

Annual Report 2021

Corporate statement

San Leon Energy plc ("San Leon" or the "Company") is a publicly listed energy company focused on Nigeria. The Company currently holds a 10.58% initial indirect economic interest in Oil Mining Lease 18 ("OML 18"), a producing asset located onshore Nigeria; and a 13.32%* interest in Energy Link Infrastructure (Malta) Ltd ("ELI").

In June 2021, the Company announced the proposed Midwestern Reorganisation and further ELI transactions which are described in full in the Admission Document published on 8 July 2022. The transactions are expected to complete in Q4 2022 (subject to regulatory consent), and will position the Company to become a leading independent production and exploration company focused on Nigeria and West Africa.

*At 31 December 2021, SLE held a 10% equity interest with an additional 1.323% that was still subject to certain conditions being met. A further 2% of the ELI issued share capital was acquired post year-end subject to the same conditions as outlined in Note 31. Total interest held at 8 July 2022 date was 13.323%.

Corporate and financial highlights

Corporate

- Negotiated and announced on 24 June 2021 the proposed Midwestern Reorganisation, which is described in full in the Admission Document, published today.
- In March 2021 completed the migration of the electronic holding and settlement of the Company's shares from the CREST system to the Euroclear Bank.
- On 24 June 2021 announced the conditional purchase from Walstrand (Malta) Ltd of 1.323% of ELI shares for US$2 million, together with an option to purchase a further 4.302% in ELI for an additional US$6.5 million.
- On 7 July 2021 announced conditional payment waivers (subsequently extended) regarding the approximately US$99.3 million (par value (page 133)) of payments due from Midwestern Leon Petroleum Limited ("MLPL") to San Leon during the second half of 2021, since the repayable amounts form part of the proposed Midwestern Reorganisation. Payment waivers remain in place at the date of this report pending completion of the transactions.
- In January 2022, the Company announced that some of its subsidiaries had successfully concluded their ongoing legal proceedings with TAQA Offshore BV ("TAQA") in relation to San Leon's legacy interests in two royalties on Block Q13A , which is located offshore the Netherlands (the "Amstel Oil Field"). Payments totalling more than €5.9 million for royalties receivable up to November 2021 including a payment in respect of its legal costs, have been received in 2022. From December 2021, the royalties will continue to be payable in accordance with the terms and conditions of the Royalty Agreements, and payments and are not expected to be material.
- The Company announced on 31 January 2022 that Brandon Hill Capital was no longer acting as its Joint Broker.
- On 15 February 2022, The Company announced a further loan of US$2 million to ELI, also enabling the Company to purchase a further 2% shareholding of ELI for a nominal sum.
- In February 2022, the Company completed its US$5.5 million investment in Decklar Petroleum Limited ("Decklar"), related to the Oza field onshore Nigeria, repayable to the Company as a loan through a cash sweep. The Company also holds 11% equity stake in Decklar. The Company has an option to increase its equity interest to 15% by providing an additional loan of US$2.5 million on similar terms.
- Board appointment process previously announced completed with appointment of John Brown as Independent Non-Executive Director and Chair of the Audit and Risk Committee. Alan Campbell resigned from the Board in 2021 as part of a board restructure. Lisa Mitchell left the Company as CFO and Executive Director in October 2021, and Julian Tedder was appointed as CFO and Executive Director in December 2021.

Financial

- We note the uncertainty set out in Note 1 to the financial statements which is mitigated by the transaction announced today. Cash and cash equivalents as at 31 December 2021 of US$7.6 million (includes US$6.8 million restricted and held in escrow for the Oza transaction) (31 December 2020: US$18.5 million including US$6.8 million restricted and held in escrow for the Oza transaction).
- In 2021, US$2.2 million (31 December 2020: US$46.5 million) in principal and interest payments has been received under the MLPL Loan Notes.
- Outstanding amounts due under the MLPL Loan Notes are now approximately US$105.6 million (par value (page 133)), which are subject to current repayment waivers pending the completion of the proposed Midwestern Reorganisation, and would be extinguished as part of the consideration if the transaction were to complete.

Operational highlights

Operational

An update on OML 18 activity during 2021 is provided below:

- Oil delivered to the Bonny terminal for sales was approximately 4,400 barrels of oil per day ("bopd") in 2021 (21,100 bopd in 2020) and has been affected by combined losses and downtime of approximately 79%. The 2021 figure has also been affected by OPEC oil production quota restrictions, and some Covid-related delays. Field operations to boost production were largely put on hold, pending the start-up of the ACOES barging system. Together, the losses, downtime, OPEC restrictions and Covid-related delays have caused the majority of the difference between gross production when there is minimal disruption to production, and oil is received at Bonny terminal for sales.
- Gas sales averaged 29.6 million standard cubic feet per day ("mmscf/d") in 2021 after downtime (32.7 mmscf/d in 2020).
- Production downtime of 9% in 2021 was caused by third party terminal and gathering system issues. This relates to days when oil production was entirely shut down at OML 18. Historical issues in the third-party export system are expected to be substantially resolved by the implementation of the new ACOES for the purpose of transporting, storing and evacuating crude oil from OML 18 export Pipeline. The pipeline will run from within the OML 18 acreage to a dedicated FSO vessel in the open sea, approximately 50 kilometres offshore. Barging of oil from OML 18 to the FSO is expected to commence in July 2022, with trials already having been completed. Expected timing for the completion of the pipeline component of ACOES is late 2022. See ELI update below.
- Pipeline losses by the Bonny Terminal operator have increased markedly over the past year (31 December 2021: 70%; 31 December 2020: 28%), largely due to lower pipeline throughput as a result of OPEC quota restrictions and Covid-related issues. In the medium term, the ACOES is expected to reduce losses significantly.
- Eroton has taken all appropriate precautions for its operations and people, with regards to Covid-19.

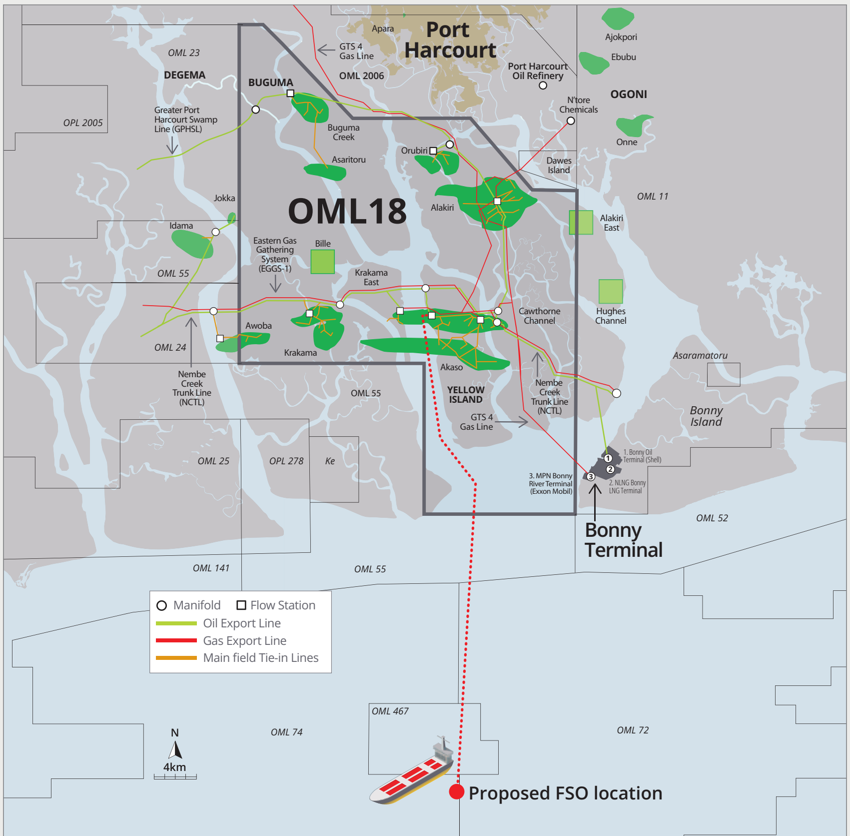
An update on ELI is provided below:

- Whilst there have been some delays to ACOES principally due to Covid, barging operations from OML 18 to the ELI Akaso FSO are now expected by ELI to commence during July 2022.
- ELI is in advanced negotiations with other third-party injectors for use of its pipeline and terminalling facilities.
- Construction of the pipeline continues to progress and hook up with ELI Akaso is expected to take place in late 2022.

Outlook for 2022

- Barging operations from OML 18 to the FSO to commence.
- Completion of the proposed transactions with Midwestern and ELI.
- The commissioning of the ACOES pipeline.
- Restarting of field operations on OML 18.
- Export of oil from Oza.
- Continuing to position the Company for further transactions.

Considerable development and exploration potential
exists across OML 18, an asset which is larger than Bahrain



Material Assets in Nigeria

10.58% Initial Indirect Economic Interest in OML 18

The 2022 Competent Persons Report ("CPR") by Petrovision Energy Services ("Petrovision") illustrates the scale of the reserves applicable to OML 18 partners. A summary is provided in the table opposite. The Company's current 10.58% initial indirect interest would increase to 44.1% if the proposed transaction with Midwestern were to complete.

Contingent resources and considerable exploration potential also exist across this asset which is larger than Bahrain. Further details regarding San Leon's investment in OML 18 can be found in Notes 13 and 15 of the Financial Statements and in the 2022 AIM admission document in the investors section of the Company's website.

13.32% equity investment in Energy Link Infrastructure (Malta)

The Company also has a 13.32% equity interest in Energy Link Infrastructure (Malta) ("ELI") – a company which owns the ACOES project. The ACOES is being constructed to provide a dedicated oil export route from the OML 18 asset, comprising a new pipeline from OML 18 and a floating storage and offloading vessel ("FSO"). Barging to the FSO is expected by ELI to commence during July 2022, and the system is expected by Eroton to reduce the downtime and allocated pipeline losses currently associated with the Nembe Creek Trunk Line ("NCTL"), to below 10%. In addition, it is anticipated that the ACOES project will improve overall well uptime. Commissioning of the pipeline component of ACOES is expected at the end of 2022, and would increase the throughput capacity of oil from OML 18 relative to the current barging.

The Board believes that the ACOES project will have a significant effect on the operation of OML 18, primarily through the reduction of downtime and losses associated with the existing export route. ELI, through its Nigerian subsidiary, will earn fees for transporting and storing crude oil from OML 18 and potential third parties. As a shareholder in ELI, San Leon stands to benefit from what the Board considers could be a very profitable operation in the medium to long term. As part of the proposed transaction, the Company would increase its equity position in ELI to c.50%, and hold loan receivables of approximately US50 million.

OML 18	Gross technical reserves before economic cut-off		
	1P	2P	3P
Oil + Condensate (mmstb^)	416 (from 389)	603 (from 576)	852 (from 777)
Gas (bscf*)	2,269 (from 3,119)	3,391 (from 3,213)	5,470 (from 5,080)

^ million stock tank barrels of oil. * billion standard cubic feet of gas.

Other assets

Ireland (Offshore) – Barryroe

San Leon holds a 4.5% Net Profit Interest ("NPI") on the Barryroe oil field which is located in Standard Exploration Licence 1 / 11 in the North Celtic Sea, offshore Ireland. The field has had six hydrocarbon bearing wells successfully drilled on the structure. Providence Resources plc (the operator of Barryroe) announced in February 2022 that it continued to seek approvals from the relevant government department to pursue further drilling on the Barryroe licence (SEL 1/11) during 2023. Providence also published summary results from a CPR on the asset.

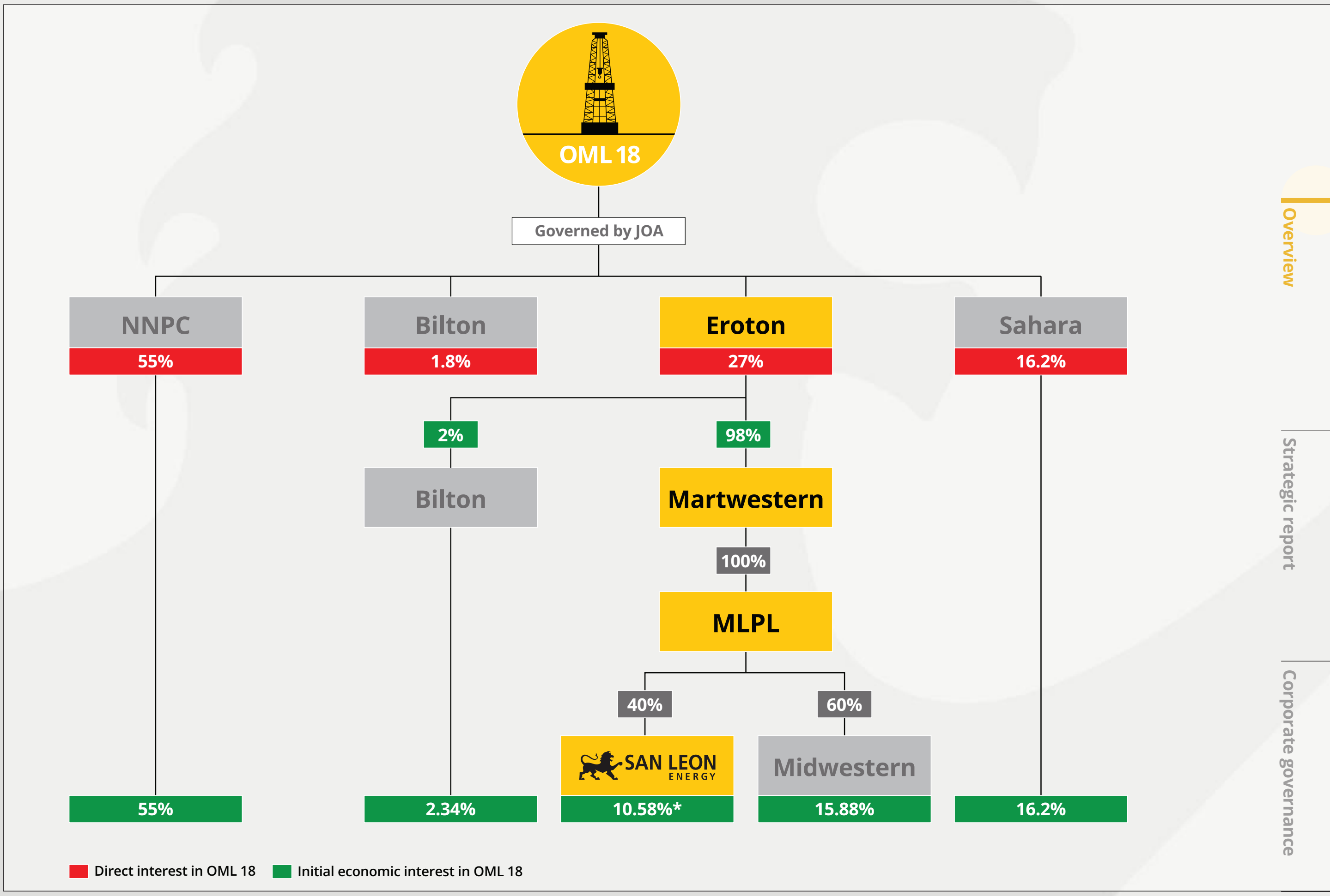
Our strategy

The Company's strategy is to become a leading independent production and exploration company focused on West Africa

We are seeking to achieve this by using our technical and operational expertise in securing production and near-term operating cash flow which will yield value to our shareholders whilst continuing to forge close links with governments, partners and the local communities that we operate in.

The proposed transaction with Midwestern would enable us to increase our involvement in OML 18 and the ACOES project, as well as substantially increasing progressing the materiality of our holdings.

San Leon holds an initial indirect 10.58% economic interest in OML 18* (prior to the proposed completion of the transaction with Midwestern)



The parties in the OML 18 shareholding structure are described below.

NNPC: Nigerian National Petroleum Corporation is the state oil corporation of Nigeria.

Eroton: Eroton Exploration and Production Company Limited is the current operator that completed the purchase of 45% of OML 18 for US$1.1 billion from Shell, Total and ENI in March 2015. Following a farm out to Sahara and Bilton (see below), Eroton now holds a 27% interest in the licence.

Sahara: Sahara Field Production Limited is a Nigerian privately-owned integrated oil & gas company – part of a power and energy conglomerate established in 1996. Effective 16.2% stake was part of Eroton's original 45% purchase.

Bilton: Bilton Energy Limited is an indigenous company whose entry costs into OML 18 were carried by certain partners. Bilton has a 1.8% direct interest in OML 18 and also has a 50% shareholding in Eroton (2% initial economic interest)..

Martwestern: Martwestern Energy Limited is a Nigerian company 100%-owned by Midwestern Leon Petroleum Limited ("MLPL"). Martwestern owns 50% of Eroton (98% initial economic interest) ((Bilton owns the remaining 50%).

MLPL: Midwestern Leon Petroleum Limited, a Mauritian-incorporated special purpose vehicle, holding the combined OML 18 interest of both San Leon and Midwestern Oil & Gas Company Limited, through Martwestern.

Midwestern: Midwestern Oil and Gas Company Limited is a Nigerian company awarded operatorship of Umusadege Marginal Field located in OML 56, Nigeria, in 2003, increasing production from 3,000 to a typical rate of ~20,000 bopd.

* After various financial and production hurdles are met, San Leon's indirect economic interest in OML 18 reduces to 5.4%.

Chairman's statement

Whilst the Covid-19 pandemic continued to provide industry challenges during 2021, the recovery in oil price during the year and since, has enabled the Company to approach its portfolio with increased confidence. As a result, San Leon has proposed a major scaling up of its interests in OML 18 and ELI.

The Company was proud to announce in June 2021 the proposed transaction to increase its position in OML 18 and ELI significantly, and today we have published the Admission Document in this respect. I view the proposal as a milestone in San Leon's growth aspirations, and an integral part of our strategy.

The proposed transaction

San Leon is committed to the long-term development of its Nigerian assets, with a focus of delivering value to Shareholders. This is driven by its technical expertise and operational capabilities, secured by the close links it forges with governments, joint venture partners and the local communities in which it operates.

The MLPL Reorganisation and the ELI Reorganisation together with the Further ELI Investments would result in San Leon's initial indirect interest in OML 18 increasing from 10.58% to 44.1%, while the MLPL Loan Notes would fall away. In additional transactions, the Company's interest in ELI would increase to approximately 50%, as well as having approximately US$50 million of loan notes receivable from ELI. The transaction is also expected to have the following benefits:

- Increasing the Company's economic interest in ELI will complement the Company's proposed 100% interest in MLPL, as the ACOES project is being constructed to provide a dedicated oil export route from OML 18 and therefore for the benefit of MLPL, including the expected reduction of pipeline losses and increasing the uptime of export;
- San Leon's larger presence by virtue of its activities, resources and commitments, will pave the way for the Company to become a significant market participant in Nigeria, thereby better positioning the Company to deliver value for shareholders; and
- Increasing the Company's technical and management involvement in the OML 18 asset, serving to help optimise the development of the asset. This will be formalised through an Asset Management Agreement.

Each of these benefits will contribute to the Company's main objectives which are to:

- Use the Company's interest in OML 18 as a platform to become a leading independent production and exploration company focused on Nigeria and West Africa – by securing and developing further high potential asset opportunities that yield value for shareholders;
- Use the Company's technical and operational expertise in securing production and near-term operating cash flow which will yield value to shareholders whilst continuing to forge close links with governments, partners and the local communities that it operates in; and
- Continue to position the Company for further transactions.

The Company's financial position also enabled it to increase its stake in ELI during 2021 and early 2022 to 13.323% with a loan note receivable of US$17 million (par value), and during 2021 and early 2022 to complete an investment of US$5.5 million in Decklar (related to the Oza field).The Company has an option to invest a further US$2.5 million in Decklar by the end of June 2022. Decklar performed a workover and well testing on the Oza-1 well during 2021, and results are discussed in more detail in the CEO's report.

Last year I anticipated that the new oil export system, ACOES, was expected to be operational during H2 2021. While the timing on this has slipped, I am pleased to report that barging operations to the FSO are expected by ELI to commence during 2022, and that ELI expects to have the pipeline completed to the FSO at the end of 2022.

As discussed in my statement last year, the issues with NCTL export system, Covid-19 delays, infield operational deferrals, and increased production downtime have continued to affect production during 2021 and have some natural delay in achieving future production increases from new well drilling. Alongside the revival in oil prices, and with ACOES becoming operational, I expect Eroton to start to examine restarting well operations with an aim to boosting production on what we consider to be a world-class asset.

US$17m

Increased its stake in ELI to 13.32% and US$17 million receivable loan note

West Africa, focusing on Nigeria, is where San Leon's activities and resources will continue to be concentrated, and we expect this focus to continue to deliver value for shareholders.

Our increased investment in ELI, and the further proposed increases, are expected to yield attractive returns to the Company from its loan plus equity components.

The Company still retains two non-Nigerian, non-core interests. These are the Durresi block offshore Albania, for which the Company is seeking to enter the Appraisal phase of the licence and a farm out is being sought, and the Company's Net Profit Interest ("NPI") in the Barryroe field, offshore Ireland, where the operator, Providence Resources plc, continues to work on a funding solution to progress development of the field.

The Company has nearly completed its exit from Poland, with the small amount of remaining activity being administrative. The Company continues to hold certain NPIs in relation to Polish licences.

Staff welfare is of utmost importance to us and as such at San Leon Energy plc we have also been working remotely whenever possible since March 2020 as previously mandated by the different governments in the countries in which we have a presence. All employees and consultants have continued to be actively engaged regardless of the home working conditions. The Company has now started to reduce the proportion of home working, in line with general industry practice.

As at 8 July 2022 San Leon had cash on hand of US$0.2 million. The Midwestern transactions will be transformational for the Company and are expected to be cash flow positive in the near term.

As part of the proposed transactions, the Loan Notes would no longer be in place, and the Company will instead utilise its significantly increased portfolio of other expected cash flow sources.

During 2021, the Company made two Board appointments.

During May, John Brown joined the Board on as an independent Non-Executive Director. Mr Brown has more than 20 years of international experience in oil and gas and related industries, including over nine years of experience with operations in West Africa. He is a Chartered Accountant (ICAS) and was Chief Financial Officer or Group Finance Director for numerous UK listed companies within the oil and gas sector including Gulf Marine Services plc, Bowleven plc and Pittencrieff Resources plc. Mr Brown chairs the audit and risk committee and is a member of the nomination and remuneration committees.

During December 2021 Julian Tedder was appointed as Chief Financial Officer and Executive Director of the Company. Julian is a Chartered Accountant and previously served as Chief Financial Officer of IGas Energy plc and General Manager, Finance of Tullow Oil plc, ad brings with him a wealth of finance and industry experience.

I am delighted to welcome both to the Company. I would also like to thank Lisa Mitchell, who left the Company as previous CFO, in November 2021, for all of her contributions. I am also grateful to Alan Campbell for all of his invaluable work as a Director of the Company since 2016, and who stepped down from the Board in May 2021. Alan has continued as Company Secretary and has remained a key part of the Company's commercial successes and business development.

After the reporting period, in January 2022, the Company announced that Brandon Hill Capital was no longer acting as Joint Broker.

In 2021, San Leon's Board continued to seek ways to improve its Environment, Social and Governance ("ESG") impact. Covid-19 increased the challenges in meeting objectives but the Company was still very proud to deliver on several initiatives during the course of 2021 in Nigeria including the provision of educational support for disadvantaged children, the building of two new schools in Kogi State, and the provision of water infrastructure to villages in Benue and Kogi States. This was in addition to our ongoing support of women-led small enterprises and the supply of much needed basic supplies such as food, clothing and medical care to some highly disadvantaged people.

As part of our ESG strategy, we will continue ongoing engagement with all stakeholders and governments to ensure that we operate our business in a way that is sustainable and benefits the local communities in which we have a presence.

With the improved oil price, the proposed substantial increase in its indirect equity stake in OML 18, the proposed further investments in ELI, and its position in Oza, we believe that San Leon is well placed to continue to realise value for shareholders from Nigeria. Our technical and management expertise in the industry, will be put to work more than ever in these assets. As a result of the near-term expected startup of barging as part of ACOES, and anticipated pipeline completion to ACOES at the end of this year, we anticipate short-term improvements in OML 18 sales.

Our strategy continues to include the delivery of sustainable long-term returns to shareholders. We aim to achieve this through a combination of returns to shareholders and also growth in our asset base.

I look forward with confidence to updating shareholders on the achievement of these aims.

Mutiu Sunmonu
Chairman

8 July 2022

Four expected cash flow sources

Poised for strong cash flow generation from its equity interests in MLPL and ELI and loan notes repayment from ELI and Decklar

1 Loan notes repayment and interest

Under the proposed transaction with Midwestern, the existing MLPL Loan Notes totalling approximately US$99.3 million (par value (page 133)) of principal plus interest (accounted for as US$96.5 million at an annual 25% coupon under IFRS) would be extinguished as part of the consideration for the transactions with Midwestern. In 2021 the Company waived repayment of the MLPL loan notes pending completion of the transactions. Whilst there was a delay in repayment and uncertainty in the completion of the transactions, this has resulted in an expected credit loss provision of US$16.1 million at year end.

San Leon has significant loan receivables from Energy Link Infrastructure (Malta) Limited ("ELI"), the company which owns the Alternative Crude Oil Evacuation System ("ACOES") project. There is approximately US$17 million** principal currently outstanding, and in the event of the Midwestern and other transaction completing, this is expected to become approximately US$50 million. This loan amount attracts a coupon at 14%, is repayable quarterly. First payment was due in H1 2021 but due to delays in the ACOES project the first payment is now expected in the coming months given the commencement of barging operations of the Floating Storage and Offloading ("FSO"). Under the terms of ELI's senior debt facility, the lender has a charge over all of the company's assets and, as further security, each shareholder (including San Leon Energy) has pledged their shares to the lender. The terms of the pledge are that the shares cannot be transferred or otherwise utilised without the lender's consent.

The Company completed its loan of US$5.5 million to Decklar in February 2022 in relation to the Oza field and this is repayable by a cash sweep mechanism.

2 Indirect equity interest

Eroton is the Operator of OML 18 while San Leon has a defined partner role through its shareholding in MLPL. San Leon provides technical support to Eroton.

No dividend has been paid as yet by MLPL. OML 18 cash flow has not been as anticipated due to both operational issues and the economic turmoil during Covid-19 as well as the associated volatility in oil price and impact on planned well drilling and delays in the ACOES project.

The majority of the 9% production downtime in 2021 was caused by problems in the third-party terminal and gathering system. Underlying production (production at the wellhead before pipeline losses) from the assets was approximately 4,400 bopd during 2021 before that downtime, affected both by Covid-related issues but also due to delaying field operations during such a period of very high pipeline losses. This downtime and losses issues are being addressed by the planned implementation of the new ACOES export pipeline and FSO project, which is due to be fully commissioned during late 2022, but whose interim barging operations (awaiting the new pipeline) are expected by ELI to commence during July 2022. Reducing field downtime is also expected to improve overall well performance. This is due to decreasing the time taken to bring all wells back to normal production rates again once the field is back operating.

Pipeline losses have been allocated to all operators by the Bonny Terminal operator. The 70% pipeline losses have been a significant burden on net oil sales. In future, the ACOES export pipeline and FSO system mentioned above will provide additional control.

Removing the above challenges will enable greater capital allocation to production growth and support future dividends from Eroton to the Company via its current initial indirect 10.58% economic interest in OML 18, which would increase to 44.1% initial indirect interest in OML 18 if the proposed transaction with Midwestern were to complete.

The future ability of MLPL to pay dividends to its shareholders (including to San Leon) will require future payments of dividends by Eroton to Martwestern and from Martwestern to MLPL, the MLPL loan notes will be extinguished on completion of the transaction.

The Directors have assessed the carrying value of the equity interest in MLPL, considering the above issues (Note 13), and have determined that it is not impaired.

As a current 13.32% shareholder in ELI, which would increase to approximately 50% in the event of the proposed Midwestern transaction and other transactions to complete, San Leon stands to benefit from what the Board considers can be a very profitable operation in the medium to long term.

San Leon also acquired 11% equity interest in Decklar in February 2022 relating to the Oza field.

3 Services revenue

San Leon can provide certain technical services in relation to subsurface work on OML 18, and this would be formalised as a contract for US$0.5 million per month if the proposed transaction with Midwestern were to complete. The Company recognised US$3 million in revenue in respect of non-rig related technical services provided to Eroton in relation to wells already drilled. Separately, the Company also has a Master Services Agreement to provide certain rig-related services to Eroton.

4 Barryroe net profit interest

The Company's 4.5% Net Profit Interest in Barryroe oil field, offshore Ireland, provides a zero-cost potential future cash stream.

At year end, the fair value of the Net Profit Interest has decreased to US$4.3 million.

** Refer to Alternate Performance Measures on page 133 for full reconciliation of IFRS numbers and Alternative Performance Measures.*

*** US$17 million principal receivable relates to US$15 million issued in 2020 and US$2 million loan issued in 2022.*

Cash generation, our current portfolio of potential sources for cash flow is:

NEAR TERM	MEDIUM TERM	LONG TERM

1 Loan Notes — Payment under Loan Notes structures.

2 Dividends — Dividend payments as a consequence of holding indirect economic interests in producing assets.

3 Services — Income from the provision of subsurface technical services to Eroton (the operator of OML 18) and/or provision of rig-based drilling and workover (and associated) services, and production services, under a Master Services Agreement ("MSA") with Eroton.

4 Net Profit Interest — 4.5% Barryroe Net Profit Interest (through potential income or a potential sale).

Chief Executive's statement

2021 heralded the announcement of the intended scaling up of the Company's operations in Nigeria. Macroeconomic factors eased during the year, paving the way for growth on OML 18.

San Leon has long believed in the ability for OML 18 to generate value for its shareholders, and 2021 saw the opportunity for the Company to position itself for a significant scaling up of its interests there. Indeed, the company has today published its Admission Document, relating to that proposed transaction. The Chairman's Statement outlines the benefits of the transaction as anticipated by the Company, and the impact this is expected by the Directors to have upon cash flow and growth.

Eroton had a necessarily quiet year, given the continued effects of the Covid-19 pandemic, and operationally the large losses of any oil export using the NCTL. Eroton has been awaiting the availability of the ACOES system, which it expects to significantly reduce the downtime and allocated production losses currently associated with the NCTL. In addition, it is anticipated that the ACOES project will greatly improve overall well uptime. ELI anticipates that the FSO will be officially commissioned and barging operations will begin from OML 18 to the FSO during July 2022, finally providing the new export route for much of OML 18's oil production. It is anticipated that the pipeline component of ACOES will be completed at the end of 2022.

Both gross production at the wellhead and sales oil volumes were lower than expected. This was due to downtime; allocated pipeline losses associated with the use of the NCTL; Covid-related operational delays; prudent reduced operational expenditure and capital expenditure spending as a result of lower oil price; and also, OPEC production quota restrictions. Gross oil production, taking out the effect of NCTL downtime, (but after reductions for OPEC quota production restrictions), was around 21,100 bopd. Sales oil, including the effects of downtime and allocated losses, and of OPEC quota production restrictions, was around 4,400 bopd.

The proposed transaction is expected by San Leon to enable it further to increase its involvement with the subsurface technical input into OML 18, and the Company would have a paid contract to do so. We continue to believe that OML 18 is a world class asset and one that we look forward to developing further with our partners.

Additions to our asset base

I am pleased that our Company was in a position to enhance its portfolio of assets within Nigeria during 2021, in addition to the proposed OML 18 transaction. We had already started to invest in ELI during 2020, and that was augmented with a further US$4 million of investment during 2021 and early 2022. As part of the proposed transaction, we also intend to invest another US$37.5 million to bring our equity holding to approximately 50%, and loan note receipts of US$50 million. I expect ELI to be a value-adding and cash-generative asset, both in the near term and for many years to come.

In February 2022, San Leon completed US$5.5 million of its proposed US$7.5 million investment into Decklar during 2021 and in the first months of 2022, given the 11% equity in Decklar, together with US$5.5 million of loan notes receivables. This transaction involves Decklar, as Risk Service Provider to the operator of the Oza field, performing workover and new well drilling to develop the reserves and contingent resources on what is a proven producing field with existing infrastructure. Under the terms of the financing, SLE have rights to a cash sweep until the loan coupon is repaid. During 2021, Decklar performed the anticipated workover on the Oza-1 well, and successfully flow tested all three target zones. The well has been configured to flow from the uppermost zone, and export of oil produced during the well testing recently began. The Company now has the option to invest a further US$2.5 million to increase its equity holding in Decklar to 15%, and to receive an additional US$2.5 million in loan note receivables with a cash sweep. The option to purchase an additional 15% equity has been relinquished.

Cash flow

The Company has a number of anticipated sources of cash flow, as it builds its portfolio in line with its stated strategy. As of 31 December 2021, cash receipts totalling US$198 million have come from the repayment of MLPL Loan Notes, including interest. The outstanding balance payable as of 24 June 2022 is US$105.6 million* at par value (US$102.2 million under IFRS), which continues to accrue interest.

Final payment of the MLPL Loan Notes was anticipated by the end of 2021, however due to issues around Covid-19, volatility in the oil price and demand as well as short-term production issues on OML 18, the Company believes this date is unlikely to be met. The Company is still confident in receiving all repayments and late payment interest, however in line with our accounting policy we have recognised a credit impairment to reflect the uncertainty around timing of repayments. The anticipated transaction described in the Admission Document, would result in the ending of the existing MLPL Loan Notes. Future anticipated cash flow is from loan notes receipts from ELI, dividends from equity holdings in ELI, dividends from Eroton via MLPL (once OML 18 is generating sufficient free cash flow), loan repayments from Decklar (in relation to the Oza field), and equity income from Oza.

ESG

As discussed in the Chairman's statement ESG is an area of increasing importance. This is an area in which San Leon is committed to meeting high standards of ESG practices across all aspects of the business. The Company is committed to the countries in which it operates and is dedicated to promoting sustainable growth as well as providing support to local communities in Nigeria. The Company firmly believes that by providing the younger generation with the valuable skills and education needed to succeed, the whole country will benefit from growth and prosperity. In 2021 we continued to support health and education in the communities in which we operate and delivered many sustainable projects that have a direct and positive impact on the environment.

Dematerialisation of Company Shares by 1 January 2023

The company would like to remind shareholders that the impending EU wide dematerialisation of shares is an upcoming event, which will effectively mean, based on current expectations, that share certificates will no longer be accepted as prima facie evidence of ownership from 1 January 2023.

As noted in our circular dated 6 January 2021, pursuant to EU regulations requiring dematerialisation (which means that shares will be registered in book entry form, without share certificates), Irish registered listed public companies are required to convert all holdings to uncertificated form by January 2023 (new issues) and January 2025 (all other securities). However, it is currently expected that a legislative change will be implemented to allow for dematerialisation both in respect of existing shares and new issues from 1 January 2023.

As a consequence, the market is planning to replace its existing infrastructure (where certificated shares are used) by Registrars and other market stakeholders with a dematerialised model, where only book entry will be used. While there will be a cost to the Company, shareholders are not anticipated to be required to have to take any action, unless further legislation is enacted that requires such. The Company will inform shareholders when any legislation is enacted, which is expected in Q4 2022, and will inform shareholders if expectations change and they need to take any action.

** Refer to Alternate Performance Measures on page 133 for full reconciliation of IFRS numbers and Alternative Performance Measures.*

Chief Executive's statement continued

Outlook

Recovery of the oil price during 2021 and into 2022 clearly assists the business case for the Company's assets and their continued development. The expected near-term startup of the barging component of the ACOES system is an important step in unlocking the value in OML 18, and we look forward to the pipeline portion of ACOES coming online following anticipated completion at the end of 2022. The proposed transaction is expected by the Company to yield material stakes in both OML 18 and ELI, enabling us to help carve out strategy for these important assets, which of course benefit from each other.

The Company has cash in hand as at 8 July 2022 of US$0.2 million, and anticipates near-term cash flow from ELI loan notes repayments and from its technical management contract with Eroton, while awaiting equity income from its asset portfolio. The Company continues to monitor the performance of OML 18 and its other assets, and is ready to pursue any appropriate opportunities that may arise in the current market.

I look forward to updating shareholders with news of the impact of the ACOES on OML 18, plans for operations on OML 18 and Oza, and how our various expected cash flow streams are performing. The Company is in a good position, with a variety of future cash streams, and together with its professional relationships and people, I believe is well-positioned to grow and add further value to shareholders. I expect to look back on the proposed transaction as being transformational for the Company.

Oisín Fanning

CEO

8 July 2022

Corporate governance

Board of Directors

Mutiu Sunmonu
Non-Executive Chairman

Background and experience:
Mr Sunmonu has led the Company as Non-Executive Chairman since the purchase of our indirect economic interest in OML 18 in September 2016. Mr Sunmonu is a former managing director of Shell Petroleum Development Company and was country chairman of Shell companies in Nigeria from 2008 to February 2015. He led Shell's multi-billion dollar operations in Nigeria employing over 4,000 direct staff with revenue contribution to the Nigerian Government of ~US$70 billion dollars during 2009-2013.

He has worked in the industry for over 36 years in Nigeria, the UK and the Netherlands. His strategic vision, proven track record and deep knowledge of Nigeria, brings valuable Nigerian operating experience and relationships to San Leon Energy plc.

Committee memberships:
Chair of Health and Safety Committee, Nomination and Remuneration Committee's, Member of Audit and Risk Committee. During the year Mr Sunmonu temporarily Chaired the Audit and Risk and Remuneration Committees while recruitment of an additional Independent Non-Executive Director occurred.

(Appointed 21 September 2016)

Oisín Fanning
Chief Executive Officer

Background and experience:
Mr Fanning has almost 30 years' experience in structured finance, stockbroking and corporate finance, with 22 years specialising in the oil and gas industry. Formerly CEO of Astley & Pearce Ltd., MMI Stockbrokers, and Smart Telecom plc, Oisín was closely involved with the restructuring of Dana Petroleum plc in the early 1990s, and was heavily involved with broking of Tullow Oil plc shares early in its growth phase. Oisín is both visionary and deeply practical in pursuing business goals on behalf of stakeholders.

He recognises the importance of finding and developing talented people and building relationships with local governments, partners and communities.

Committee memberships:
Member of Nomination Committee.

(Appointed 16 September 1995)

Joel Price
Chief Operating Officer

Background and experience:
Mr Price is a petroleum engineer with 25 years' experience, having worked across well operations, reservoir engineering, production optimisation, asset management and business development.

He was instrumental in the drilling and hydraulic fracturing of the first multi-fracked horizontal wells in Poland. Joel was previously in various technical roles with Hess in the UK and Algeria, including extensive well workover and field rehabilitation, followed by three years as Business Development Manager at Delta Hydrocarbons BV in The Netherlands (evaluating opportunities worldwide).

He holds a BA Hons. in Natural Sciences (Geology) from Cambridge University, an MEng in Petroleum Engineering from Heriot-Watt University, and an MBA with distinction from Durham University.

Committee memberships:
Member of Health and Safety Committee.

(Appointed 21 September 2016)

Julian Tedder
Chief Financial Officer

Background and experience:
Julian is a qualified Chartered Accountant with over 20 years of senior management experience both at operational and group level within the international oil and gas sector. He was General Manager, Finance at Tullow Oil Plc for 12 years where he was a key part of the leadership team that grew the business with several significant M&A transactions as well as very successful exploration and development delivery.

He most recently served as Chief Financial Officer of IGas Energy plc, where he led the capital restructuring of the Group in 2016 and subsequent refinancing in 2019.

Julian is an FCA from the Institute of Chartered Accountants in England and Wales, and holds a BA (Hons) in Mathematics from the University of York.

(Appointed 1 December 2021)

Adekolapo Ademola
Non-Executive Director

Background and experience:
A Business Management graduate from the University of Jos, Nigeria with further training in the USA and UK.

With extensive consulting experience across multiple industry sectors added to his 17+ years of involvement in the Nigerian Oil and Gas sector; Mr Ademola brings valuable regional knowledge, expertise and relationships to San Leon Energy plc. Mr Ademola is also the CEO and Executive Director of ELI.

Committee memberships:
Nomination Committee.

(Appointed to Nomination Committee on 25 May 2021)

John Brown
Independent Non-Executive Director

Background and experience:
Mr Brown has more than 20 years of international experience in the oil and gas and related industries, including 10 years in West Africa. He is a Chartered Accountant (ICAS) and has acted as Chief Financial Officer or Group Finance Director for numerous UK listed companies within the oil and gas sector including Gulf Marine Services plc, Bowleven plc and Pittencrieff Resources plc.

Committee memberships:
Chair of the Audit and Risk Committee, member of the Nomination and Remuneration Committees.

(Appointed 7 May 2021)

Previous Directors

Alan Campbell: Executive Director
(Appointed 21 September 2016, resigned 7 May 2021)

Lisa Mitchell: Chief Financial Officer
(Appointed 30 June 2019, resigned 29 October 2021)

Corporate governance statement

Corporate Governance

The Board is committed to maintaining high standards of corporate governance to ensure the Company is run effectively. In accordance with Rule 26 of the AIM Rules for Companies, the Company confirms that it has adopted the QCA Code. We aim to conduct our business in an open, honest and ethical manner. The Board is accountable to shareholders for good corporate governance and has adopted the procedures set out below in this regard.

The QCA Code is based on ten principles that focus on the pursuit of medium to long term value for shareholders. The QCA has stated what it considers to be appropriate arrangements for growing companies and asks companies to provide an explanation about how they are meeting the principles through the prescribed disclosures. The Board has considered how we apply each principle to the extent that the Board judges these to be appropriate in view of the Company's size, strategy, resources and stage of development, and below we provide an explanation of the approach taken in relation to each.

This report explains in broad terms how the Company applies the main principles of the QCA Code. The Board has identified one principle where we are not in full compliance with the guidelines of the QCA Code. This deviation is to Principle 5 – Maintain the Board as a well-functioning, balanced team led by the Chair – and relates to the participation of Non-Executive Directors in the Company's share option scheme and the impact on their independence. Further details are contained in the respective section below.

The Board

The Board is responsible for setting the overall strategy of the business, reviewing management performance and ensuring the Group has sufficient financial and human resources to meet its objectives. It directs the Group's activities in an effective manner through Board meetings and monitors performance through timely and relevant reporting procedures.

The Board plays a central role in developing and maintaining the Company's culture and values by setting the 'tone from the top', defining the behaviours expected by the Board and ensuring that ethical standards are upheld. Thus, the Board aims for the right balance between entrepreneurial leadership and prudent and effective risk management, which are vital to maintaining a sustainable business and creating value for shareholders.

The QCA Code requires that the boards of AIM companies have an appropriate balance between Executive and Non-Executive Directors and should have at least two Independent Non-Executive Directors.

As at the date this Annual Report is published, the Board comprises of the Non-Executive Chairman, three Executive Directors and two further Non-Executive Directors. The Independent Non-Executive Directors are Mutiu Sunmonu (appointed 21 September 2016) and John Brown (appointed 7 May 2021). They are considered independent of management and any business or other relationships which would interfere with the exercise of their independent judgement. On 7 April 2020, Mr Adekolapo Ademola was appointed to the Board as a Non-Independent Non-Executive Director on behalf of Midwestern Oil and Gas Company Limited, a company of which he is also a Director. Mr Ademola is also CEO and Executive Director of ELI.

The following paragraphs set out the Company's compliance with the ten principles of the QCA Code.

Principle 1 – Establish a strategy and business model which promote long-term value for shareholders

The Company's overall strategic objective is to secure and develop high-potential oil and gas related asset opportunities in West Africa and produce a near-term operating cash flow, yielding value to shareholders in the medium to long-term. The Company plans to grow by carefully selecting new opportunities, particularly in Nigeria, where it can achieve this through our technical expertise, operational capabilities and industry contacts, secured by the close links it forges with governments and the local communities. The Company has built its industry reputation as a capable operator in various European and African countries and its key asset remains the indirect economic interest in OML 18 – which the Board considers to be a world class asset onshore Nigeria. Other Nigerian assets include an equity interest in ELI; the Company which owns the ACOES project, which is intended to provide a dedicated oil export route from OML 18. The Company has an indirect interest in OML 11 by virtue of its equity investment in Decklar, reinforcing the Board's commitment to offering the Company's shareholders upside exposure to other opportunities in West Africa in addition to OML 18. The Company continues to seek to monetise or otherwise dispose of its non-core assets in keeping with that strategy.

Key challenges and risks around executing this strategy and associated mitigants are detailed in the Director's Report on page 32. These are namely:

- financial risk around loan note repayments;
- partnership risk;
- further Pandemics;
- commodity price risk; and
- environmental risk.

Risk assessment and evaluation is an essential part of the Company's planning and an important aspect of the Company's internal control system. The Company strives to develop strong working relationships with its partners and suppliers in its various operating locations to manage and mitigate the operational risks. The Company is committed to operating a sustainable business and plans to incorporate Environmental, Social and Governance aspects to all future opportunities reviewed.

Capital distribution policy

As part of the Company's strategy to generate value for shareholders, within the Admission Document published in August 2016, the Company set out a shareholder distribution policy. The ability for the Company to make such distributions is dependent upon the availability of cash to distribute. In January 2020 it was announced that the buyback programme had completed with the repurchase of 5,709,101 shares at an average price of 27.5 pence per share, with a value of US$2.0 million (£1.6 million). On 27 April 2020 the Company announced a special dividend of £27.0 million (US$33.3 million), or 6 pence per ordinary share, with a payment date in May 2020.

Subject to the passing of the Resolutions and completion of the MLPL Reorganisation, from Re-Admission, any dividends declared will first be used to satisfy the preferential dividend payable on the Preference Shares created by the Subdivision and to be issued to the holders of Existing Ordinary Shares immediately prior to Re-Admission. The Preference Shares will entitle the holders to receive the Preference Amount which is US$40,000,000 in aggregate and which shall on the date falling forty-two months after the date of issue of the Preference Shares and on each six-month anniversary thereafter, be increased by the Shortfall Amount. The Shortfall Amount is 5% of the amount by which the aggregate of all dividends paid to the holders of the Preference Shares is less than the Preference Amount immediately prior to such six-month anniversary. The payment by the Company of any dividends including the Preference Amount and the Shortfall Amount is subject to there being distributable reserves and the declaration of a dividend by the Directors and so there is no certainty that a dividend will be declared. The Board intends that once the Company's additional obligations pursuant to the preference shares have been discharged and following the commencement of payment of dividends, 50% of free cash flows would be returned to shareholders by way of dividends.

Principle 2 – Seek to understand and meet shareholder needs and expectations

The Company's Chief Executive Officer and other Executive Directors are responsible for shareholder liaison. They hold regular meetings with major shareholders and analysts to discuss the Company's strategy and performance and maintain a dialogue between the Company and its investors. Private investor events and investor roadshows are organised by the Company's brokers and public relations consultants, where the Chief Executive Officer and at times other Executive Directors meet with current (and potential future) institutional and retail shareholders and brokers to update them on the Company's progress. During lockdown and with Covid-19 restrictions many meetings held were via videoconferencing during the year.

The entire Board receives feedback following these meetings and any issues raised are discussed. Any significant reports from analysts are also circulated to the Board. By keeping open and transparent dialogue with shareholders the Directors can consider matters and have discussions with shareholders in a positive and constructive way. In recognition of the need to maintain open and transparent dialogue in order to better understand the needs and expectations of all shareholders, the Non-Executive Chairman and Independent Non-Executive Director are available to meet with shareholders if required.

The Annual General Meeting ("AGM") is the main forum for dialogue between the Board and the shareholders. All Directors aim to attend the AGM. The Non-Executive Chairman, Mutiu Sunmonu, leads the AGM and takes questions from the floor. The Chairs of the Audit and Risk, Remuneration, Nomination and Health and Safety Committees are on-hand to answer questions that may arise at the meeting. The 2021 AGM was held via teleconference due to Covid-19 travel restrictions on 30 September 2021. All Directors were in attendance with Committee Chairs available to answer any questions via email ahead of the meeting, regarding the activities of each of the Board Committees. At the AGM, all resolutions were passed. Notwithstanding the most recent AGM results, the Board is keen to ensure that the voting decisions of shareholders are reviewed and monitored, and where practicable the Company intends to continue to engage with shareholders who do not vote in favour of resolutions at AGMs. The Company's annual report and notice of AGM will be sent to all shareholders and will be available for download from the Company's website. The results of the AGM will be announced through a regulatory information service. All Directors receive regular industry and peer updates, to enable them to keep current on issues relevant to the Company and its shareholders. Contact details for investor relations are included on the Company's website.

Principle 3 – Take into account wider stakeholder and social responsibilities and their implications for long-term success

The Company's ability to achieve its long-term success is dependent on good relations across a wide range of stakeholders both internally (employees) and externally (partners, suppliers, regulatory authorities, local governments and communities in which we operate). The Board will maintain an ongoing and collaborative dialogue with such stakeholders and take all feedback into consideration as part of the decision-making process and day-to-day running of the business. Furthermore, the Company's local employees and management are able to communicate with stakeholder groups such as local and regional government officials, central government departments, community groups and local suppliers to keep them updated on project activities and plans.

The Company's employees are one of the most important stakeholder groups and the Board recognises the need for two-way communication with the workforce. The small size of the Company means that the Directors and senior managers are accessible to all employees to provide and receive feedback. Staff attend committee meetings as required enabling two-way communication. The Executive Directors hold regular executive team meetings of which key messages are then relayed to their respective teams. To retain our highly skilled workforce and keep their satisfaction high, the Company offers competitive remuneration, discretionary employee share option awards and health and critical illness cover. The Company seeks to ensure that all employees are treated fairly and with dignity. The Company has a zero-tolerance policy towards any form of discrimination or harassment. The Company recognises its responsibilities to the environment and community in the areas in which it operates. The Company places a high priority on operating to high standards of integrity and ethics.

The Company recognises that its activities may have impact on the environment and therefore aims to minimise that impact by operating in a socially responsible manner, engaging with local, regional and national stakeholders where we are operator. Since the Company is not currently the operator of OML 18, it does not and will not directly control these matters on OML 18.

The Company seeks to behave as a responsible employer and make positive contributions to the local economies in which it has an interest. Engagement with the local communities in which it operates and conducting social work has helped them understand what we are doing. Please refer to the Sustainability Section of the ESG report on page 39 for details on the initiatives and local community engagement made by the Company directly. Further details of the Company's commitment to environmental, social and governance matters are detailed in the "ESG" section of the Company's website.

The Board is aware of its duty to act in good faith in the interests of the Company and complies with the obligations under section 228 of the Companies Act 2014. All the Company's stakeholders have access to contact information for communication with the Company. Any feedback will be respectfully acknowledged by the Company and appropriately dealt with. The Board believes that its investment in the wider stakeholder network will assist the Company's management in achieving its long-term goals by creating an environment of trust and communication which will have positive implications for the long-term success of the Company.

The Board believes holding the Company's responsibilities in high regard to be a requirement for building its business and being considered an operator or partner of choice.

Principle 4 – Embed effective risk management, considering both opportunities and threats, throughout the organisation

The Board acknowledges its overall responsibility for ensuring that the Company has a robust framework of risk management and an appropriate system of internal control. However, any system can only provide reasonable, not absolute, assurance against material misstatement or loss and is designed to manage (but cannot eliminate) the risk of failure to achieve business objectives.

A risk management policy and procedure has been adopted which provides a procedure for the management of the Company's risk. As part of the risk management procedure, the Company has further developed its detailed risk register which identifies business continuity risks, corporate governance risks, security risks, financial risks, reputational risks and health, safety and environment protection risks. Reporting is required from each Executive Director and consists of quarterly reports assessing material changes within the risk profiles.

The Chief Financial Officer is accountable for collating the risk reports and presenting them to the Audit and Risk Committee. The Audit and Risk Committee reports on its activities and make recommendations to the Board as appropriate – the details of which will be included in the annual report and accounts.

Principle 5 – Maintain the Board as a well-functioning, balanced team led by the Chair

The Board is responsible for setting the overall strategy of the business, reviewing management performance and ensuring the Company has sufficient financial and human resources to meet its objectives. It directs the Company's activities in an effective manner through regular Board meetings and monitors performance through timely and relevant reporting procedures.

The Board is specifically responsible for:

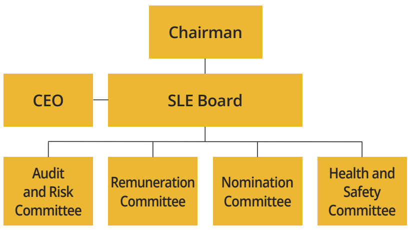
- approval of budgetary and business plans;

- approval of significant investments and capital expenditure;
- approval of annual and half-year results and interim management statements, accounting policies and the appointment and remuneration of the external auditors;
- approval of interim, and recommendation of final, dividends and share buybacks;
- changes to the Group's capital structure and the issue of any securities;
- agreeing the Group's risk appetite, establishing and maintaining a system of internal control, governance and approval authorities;
- executive performance and succession planning;
- determining standards of ethics and policy in relation to health, safety, environment, social and community responsibilities; and
- disclosure to the market and shareholders.

The Board comprises the Non-Executive Chairman, three Executive Directors and two Non-Executive Directors. The Chairman, Mutiu Sunmonu, is responsible for the leadership of the Board, ensuring its effectiveness and setting its agenda. He is not involved in the day-to-day operation of the Company. The Chairman is responsible for the Company's approach to corporate governance and the application of the principles of the QCA Code. The Company's Independent Directors are Mutiu Sunmonu and John Brown (appointed 7 May 2021) who are independent of management and any business or other relationships which would interfere with the exercise of their independent judgement. As recommended by the QCA Code, going forward, the independent Non-Executive Directors will not participate in performance-related remuneration schemes. In addition, the Company has agreed with Midwestern that it will seek to identify and appoint an additional independent Non-Executive Director in the 12 months following Re-Admission.

The Chairman considers that the Company has a balanced and diverse Board with the requisite skills and market expertise to build a successful, sustainable Nigerian-focused oil and gas business. The Company recruited John Brown in May 2021 as an Independent Non-Executive Director and Chair of the Audit and Risk Committee. Accordingly, the Company is satisfied that the current Board is sufficiently resourced to effectively discharge its governance obligations on behalf of all its shareholders and other stakeholders in the Company.

Leadership structure



To ensure that the Directors can properly carry out their roles and to facilitate proper assessment of the matters requiring the Directors consideration, they are provided with relevant information and financial details prior to all Board meetings. All Directors have access to the advice and services of Company advisors to allow them to ensure that the Board complies with applicable rules and procedures. The Board meets at least six times a year to discuss and decide the Company's business and strategic decisions and additional Board calls are held as required. In addition, there is a high degree of contact between the Directors outside of Board meetings to ensure all Directors are aware of the Company's business. If necessary, the Non-Executive Directors may take independent advice at the expense of the Company.

Each Board member commits sufficient time to fulfil their duties and obligations to the Board and the Company. They attend Board meetings and join ad hoc Board calls and offer availability for consultation when needed. The contractual arrangements between the Directors and the Company specify the minimum time commitments which are considered sufficient for the proper discharge of their duties. Each Non-Executive Director is expected to attend not less than six board meetings in each calendar year as well as the Annual General Meeting and any Extraordinary General Meetings of the Company. However, in exceptional circumstances all Board members understand the need to commit additional time. The Executive Director roles are all full-time roles.

Board meetings attendance in 2021

	Maximum possible attendance	Meetings attended
Mutiu Sunmonu	11	9
Oisín Fanning	11	11
Joel Price	11	11
Julian Tedder[1]	–	–
Lisa Mitchell[2]	10	10
Alan Campbell[3]	5	5
Adekolapo Ademola	11	11
John Brown[4]	6	6

1 *Appointed 1 December 2021.*
2 *Resigned 29 October 2021.*
3 *Resigned 7 May 2021.*
4 *Appointed 7 May 2021.*

The Board Committees

The Board has established five separate committees: Remuneration Committee, Audit and Risk Committee, Nomination Committee, Health and Safety Committee and the ESG Committee.

Remuneration Committee

The Remuneration Committee consists of the Chairman, Mutiu Sunmonu, who chairs the committee and one Non-Executive Director, John Brown, who joined the committee following his appointment on 7 May 2021. The Remuneration Committee monitors the performance of the Company's Executive Directors and makes recommendations to the Board on the remuneration packages for the executives. The remuneration and terms and conditions of appointment of the Non-Executive Directors are set by the Board as a whole.

There were no Remuneration Committee meetings in 2021 as the previous chair of the Committee resigned in December 2020 and the Committee was not quorate until the appointment of John Brown in May 2021. The Committee has already met in 2022 to discuss the remuneration policy of the Directors and an appropriate reward structure.

Remuneration committee meetings and attendance in 2021

	Number of meetings	Number of meetings attended
Mutiu Sunmonu (Chair)	Nil	Nil
John Brown [1]	Nil	Nil

1 *Appointed 7 May 2021.*

Audit and Risk Committee

The Audit and Risk Committee consists of the Chairman, Mutiu Sunmonu, and John Brown, Independent Non-Executive Director who is Chair of the Audit and Risk Committee (appointed to the committee on 7 May 2021). From 7 December 2020 to 6 May 2021 Mr Sunmonu assumed the Chair role until the appointment of Mr Brown.

The duties of the Audit and Risk Committee include the review of the accounting principles, policies and practices adopted in preparing the financial statements, internal control and risk management processes and the review of the Company's financial results. The Audit and Risk Committee considers the need for an internal audit function, reviews the risk management policies and procedures and is responsible for ensuring that adequate insurance cover is in place for identifiable risks. During 2020 the Audit and Risk Committee considered the need for internal audit and based on the size and scale of the Group's activities, combined with curtailment of activities due to Covid-19, decided that the outsourced internal audit reviews be put on hold. However, following the further investments in ELI and the proposed Decklar investment, the Committee recommended that the internal audit plan for 2020 should be rescheduled for 2021, and an external firm was re-engaged and carried out three reviews during 2021.

The Audit and Risk Committee also considers how to maintain an appropriate relationship with the Company's auditors. The Audit and Risk Committee approves any fees in respect of non-audit services provided by external auditors to safeguard the external auditor's independence and objectivity.

Key focus areas in 2021

- Review of the 2020 Annual Report and of the significant risks which included the valuation of the Midwestern Leon Petroleum Limited loan notes and equity interest, accounting for the loan notes and equity interest acquired in Energy Link Infrastructure (Malta) Limited during 2020, valuation of the 4.5% net profit interest on the Barryroe oil field and the going concern assessment;
- Review of the six months ended 30 June 2021 interim results announcement and of the significant risks (see above); and
- Review of the risk register and mitigating actions proposed by management.

Audit committee meetings and attendance in 2021

	Maximum possible attendance	Number of meetings attended
Mutiu Sunmonu [1]	4	4
John Brown (Chair) [2]	4	4

1 *Assumed Chair role from 7 December 2020 to 6 May 2021.*
2 *Appointed 7 May 2021.*

Nomination Committee

The Nomination Committee consists of the Chair, Mutiu Sunmonu, who chairs the committee, John Brown (appointed to the committee on 7 May 2021), Adekolapo Ademola (appointed to the committee on 25 May 2021) and the Chief Executive Officer, Oisín Fanning. The Nomination Committee is responsible for reviewing the structure, size and composition of the Board and making recommendations to the Board regarding any changes required.

It is responsible for locating appropriate senior candidates and conducting initial interviews and submitting recommendations on any appointment to the Board. There were three meetings held during the year where the committee led the process for new Board appointments and making recommendations to the Board.

The Board accepts that it is unusual for the Company's Chief Executive Officer to be part of this Committee. However, Mr Fanning has almost 30 years' experience in structured finance, stockbroking and corporate finance, with 12 years specialising in the oil and gas industry and as such has many useful and relevant contacts. He recognises the importance of finding and developing talented people to help the Company achieve its objectives and without his direct input, the Committee would be denied his relevant opinion on suitable candidates to join the Board.

Key focus areas in 2021

- Appointing a search firm and conducting interviews for an additional Non-Executive Director and Chair of the Audit Committee following resignations in 2020 and making appropriate recommendations to the Board;
- Appointing a search firm and conducting interviews for a new Chief Financial Officer ("CFO") following the resignation of Lisa Mitchell during the year; and
- Ensuring that appropriate succession planning is in place for senior management.

Nomination committee meetings and attendance in 2021

	Maximum possible attendance	Number of meetings attended
Mutiu Sunmonu (Chair)	3	3
Oisiń Fanning	3	3
Adekolapo Ademola [1]	1	1
John Brown [2]	1	1

1 *Appointed to the Nomination Committee on 25 May 2021.*
2 *Appointed 7 May 2021.*

Health and Safety Committee

The Health and Safety Committee consists of the Chairman, Mutiu Sunmonu and the Chief Operating Officer, Joel Price. The Health and Safety Committee is responsible for evaluating risks in Company operations including property, personnel, security and environmental risks and ensuring that appropriate procedures are in place for mitigating risk.

Environment, Social and Governance ("ESG") is an area of increasing importance. This is an area in which San Leon is committed to meeting high standards of ESG practices across all aspects of the business. The Company is committed to the countries in which it operates and is dedicated to promoting sustainable growth as well as providing support to local communities in Nigeria. The ESG Committee did not meet in 2021 due to the changes to the Board composition during the year, but will meet in 2022 on at least two occasions to develop the Committee's Terms of Reference and fully establish the Group's ESG strategy and targets for the years to come.

Key focus areas in 2021

- Review and approve new Terms of Reference for the Health and Safety Committee; and
- Reviewed the Company's ongoing response to the Covid-19 pandemic and ensured that the health of safety of the Group's employees and consultants was appropriate.

Health and Safety committee meetings and attendance in 2021

	Number of meetings	Number of meetings attended
Mutiu Sunmonu (Chair)	1	1
Joel Price	1	1

Departures from the QCA Code

Non-Executive Directors' participation in Option Schemes

The Company has previously encouraged Non-Executive Directors to participate in the Company's option schemes as the Board believed that independence is a matter of independence of mind, judgement and integrity and that Mutiu Sunmonu, John Brown and Adekolapo Ademola are independent of management. This was reviewed by the Board at the start of 2022 and going forward Non-Executive Directors are no longer eligible to be awarded options under the new scheme. The options held by Non-Executive Directors already in existence will remain in place and can be exercised or will lapse in accordance with their terms and the scheme rules. The Company is now compliant with the QCA code in this respect.

Principle 6 – Ensure that between them the Directors have the necessary up-to-date experience, skills and capabilities

The Board members bring extensive and diverse experience encompassing operational, financial, African, European, AIM and regulatory, commercial expertise and large and developing company experience. Further details of the skills and experience of the Directors are summarised in their biographies set out earlier in this Annual Report on page 14 and 15.

The Chairman believes that the Board should always have a suitable mix of skills and competencies covering all essential disciplines bringing a balanced and diverse perspective that is beneficial both operationally and strategically. The Directors consider that the Board is not dominated by one individual and all Directors have the ability to challenge proposals put forward to the meeting, democratically. While the Board has not yet adopted any formal policy on gender balance, ethnicity or age group, it is committed to fair and equal opportunity and fostering diversity subject to ensuring appointees are appropriately qualified and experienced for their roles.

The Executive Directors bring significant listed company, oil and gas operations and financial, commercial and transactions experience. The Non-Executive Directors bring significant African oil and gas, investor, AIM and main board and financial expertise to the Board.

The nature of the Company's business requires the Directors to keep their skillset up to date. The Directors are kept informed on relevant regulatory compliance and statutory matters through briefings by external advisers and all Executive and Non-Executive Directors have access to the Company's external advisers. The Company retains the services of independent advisors including financial, legal, and investor relations advisers that are available to the Board and who provide support and guidance to the Board and complement the Company's internal expertise. The Directors have also received a briefing from the Company's Nominated Adviser in respect of continued compliance with, inter alia, the AIM Rules and the Company's solicitors in respect of continued compliance with, inter alia, the Market Abuse Regulation ("MAR").

The Company Secretary and advisors assist the Chair in preparing for board meetings including dissemination of appropriate information.

The Directors receive regular briefing papers on the operational and financial performance of the Company from the executive and senior management.

All Company Non-Executive Directors also hold Director (Non-Executive or Executive) roles in other companies, helping to ensure broad and current experience. Further training is available at the Company's expense.

Principle 7 – Evaluate Board performance based on clear and relevant objectives, seeking continuous improvement

The Board considers that during the majority of 2021 the combination of Non-Executive and Executive Directors was of sufficient competence and experience to support the strategy and development of the Company. In 2021, the Company recruited John Brown, as an Independent Non-Executive Director to Chair the Audit and Risk Committee in order to further strengthen and replace resignations during the previous year.

The Chairman and Nomination Committee will continue to review and monitor the strength and objectivity of the Board and seek improvement. Please see the Nomination committee report on page 30 of the 2021 Annual Report for activities performed during the year.

Succession planning

Succession planning is currently undertaken on an informal basis by the CEO in consultation with the Nomination Committee and the Board. The Board is satisfied that this is appropriate for this stage in the Company's development and will continue to review its succession planning.

Summary background and diversity of the Board

Directors	Background: Oil & gas/ energy	Background: Finance/ commercial	Background: Investor	Diversity: Female	Diversity: Non-UK/ Irish
Mutiu Sunmonu	✓	✓	✓	–	✓
Oisín Fanning	✓	✓	✓	–	–
Joel Price	✓	✓	–	–	–
Julien Tedder [1]	✓	✓	✓	–	–
Lisa Mitchell [2]	✓	✓	✓	✓	✓
Alan Campbell [3]	✓	✓	–	–	–
Adekolapo Ademola	✓	✓	✓	–	✓
John Brown [4]	✓	✓	✓	–	–

1 Appointed 1 December 2021.
2 Resigned 29 October 2021.
3 Resigned 7 May 2021.
4 Appointed 7 May 2021.

Formal evaluation of Board and Directors

There was no formal evaluation process performed during 2021. The Board intends to carry out a formal evaluation of Board performance during 2022.

The Board has continued to focus on strategic imperatives including the fostering of best practice in all areas of governance and ensuring that the Executive team and Non-Executive Directors closely collaborate on the development of strategy and ensuring its execution. The Board continues to review and strives to enhance all areas of governance. The Board continues with its commitment in attaining compliance with the QCA code. The Board considers that the corporate governance policies it has currently in place for Board performance reviews is commensurate with the size and development stage of the Company.

Principle 8 – Promote a corporate culture that is based on ethical values and behaviours

The Company's ethics

The Company is committed to upholding high ethical standards and principles, both in letter and in spirit, throughout all of our operations. The Company aspires to, and encourages its staff to, operate in a socially responsible manner, acting professionally at all times.

The Company is committed to a strong ethical and values-driven culture encompassing high standards of quality, honesty, openness and accountability, and understands that any issues counter to this culture could have an extremely negative impact on the business. The Company, its management, employees, contractors and partners have the responsibility of applying the highest standard of ethical business practices in all their relationships with shareholders, suppliers, and the general public. Further details in this regard are outlined in the Company's website.

Creating a fair and inclusive culture

The Company promotes an inclusive, transparent and respectful culture. The Company believes that its people are its greatest asset. Led by the values of responsibility, excellence and continuous improvement, integrity and trustworthiness, cooperation and engagement, empathy and fairness they apply their skills and expertise every day to ensure the Company operates both responsibly and successfully. A culture based upon sound ethical values and behaviours is an asset and source of competitive advantage. Key to this is recruiting and retaining key senior personnel.

The Company is an equal opportunity employer and seeks to hire, endorse and retain highly skilled people based on merit, competence, performance, and business needs. The Company is committed to employment policies which follow best practice, based on equal opportunities for all employees, irrespective of ethnic origin, religion, political opinion, gender, marital status, disability, age or sexual orientation.

The Company communicates its corporate culture through staff presentations and inductions. To embody and promote sound ethical principles, the Board has endorsed the following key policies:

- Share-dealing Code;
- Health and Safety and Environmental Policy;
- Whistle Blowing Policy; and
- Anti-Bribery and Corruption Policy.

Share-dealing Code

The Company has adopted a share-dealing code for Directors and employees of the Company to ensure compliance with the provisions of the AIM Rules for Companies (including relating to the restrictions on dealings during closed periods in accordance with MAR and with Rule 21 of the AIM Rules for Companies). The Directors consider that this share dealing code is appropriate for a company whose shares are admitted to trading on AIM. The Company takes all reasonable steps to ensure compliance with the share-dealing code by the Directors and applicable employees with the terms of the share-dealing code and the relevant provisions of the AIM Rules for Companies (including Rule 21).

Health and Safety and Environmental Policy

The Company's objectives include observing the highest level of health and safety standards, developing our staff to their highest potential and being a good corporate citizen in our chosen countries of operations.

The Company is committed to providing a safe working environment for its employees and anyone doing work on the Company's behalf. The Health and Safety Committee reviews and makes recommendations concerning risk, health and safety issues. The HS&E performance indicators and the safety of its employees are principal elements of its business and are fundamental to the Company's culture and engagement with its stakeholders. HS&E is covered at Board meetings during discussion on operations. Please refer to the HS&E committee report on page 31 for a list of activities performed during the year.

Whistleblowing Policy

The Company has a Whistleblowing Policy in place to assist employees, suppliers, contractors and others with the reporting of any malpractice or illegal act or omission by others. The policy is reviewed at least once every year or more often if necessary and is communicated to all employees. It was last reviewed in February 2022 as part of the Audit and Risk Committee responsibilities.

Anti-Bribery and Corruption Policy

The Company's Anti-Bribery and Corruption Policy ("ABC") formalises the Company's zero-tolerance approach to bribery and corruption. The Company expects all employees, suppliers, contractors and consultants to conduct their day-to-day business activities in a fair, honest and ethical manner, and to be aware of and refer to the Anti-Bribery & Corruption Policy in all of their business activities worldwide and to conduct all business in compliance with it. The Company seeks to enforce effective systems to counter bribery, such as secondary authorisations for payments.

The Policy was last reviewed with any updates approved by the Board in March 2022 as preparation for the proposed Midwestern transaction.

Principle 9 – Maintain governance structures and processes that are fit for purpose and support good decision-making by the Board

The Board of Directors recognises the importance of applying the highest standards of corporate governance to enable effective and efficient decision making, and to give a structural aid for Directors to discharge their duty to promote the success of the company for the benefit of its shareholders.

The Board reserves for itself a range of key decisions to ensure that it retains proper direction and control of the Company whilst delegating authority to individual Directors who are responsible for the day-to-day management of the business. The Board retains ultimate accountability for good governance and is responsible for monitoring the activities of the executive team.

The following matters are reserved for the Board:

- all matters which exceed the authority delegated to the Group executives;
- mergers and acquisitions transactions;
- strategy, budgets and business plans;
- audit, financial and other reporting

and controls;

- structure and capital;
- internal controls and governance;
- contracts;
- communications;
- Board, Board committees, management, officers and advisers;
- management development, remuneration and employee benefits; and
- delegation of authority.

The Company conducts a review of the Company's governance framework each year and takes into account internal and external audit recommendations. The appropriateness of the Company's governance structures will continue to be reviewed in light of further developments of accepted best practice and the development of the Company. (Refer to the Audit and Risk Committee report for a description of the committee and the 2021 reviews on page 25 of this report).

Principle 10 – Communicate how the company is governed and is performing by maintaining a dialogue with shareholders and other relevant stakeholders

San Leon Energy is committed to open communication with all its stakeholders. The Company believes it is important to explain business development and financial results to its stakeholders and to ensure that suitable arrangements are in place so that the issues and concerns of major stakeholders are heard and understood.

The Board has been supported by an Audit and Risk Committee, Remuneration Committee, Nomination Committee and Health and Safety Committee (an ESG Committee was formally constituted in December 2020); details of their activities during 2021 can be found in each of their reports on pages 25 to 31 of this report.

The Company communicates with all stakeholders through its website, Regulatory News Service ("RNS") announcements, Annual Report and Accounts, half yearly announcements, AGMs and private meetings.

Copies of the Annual Report and Financial Statements are issued to all shareholders who have requested them and copies are available on the Group's investor website www.sanleonenergy.com. The Group's interim results are also made available on the Company's website. The Group makes full use of its investor website to provide information to shareholders and other interested parties.

The Chief Executive Officer and other Executive Directors are responsible for communicating with major shareholders and other shareholders who wish to be part of a dialogue. The Board is briefed by the CEO regarding these discussions at each board meeting as required. Feedback by way of market updates, brokerage and communication reports, analyst and proxy agents is presented on an ad hoc basis as received.

The Chairs of the Audit and Risk, Remuneration, Nomination, and Health and Safety Committees are also available to answer questions at the AGM.

The Board discloses the result of general meetings by way of announcement and discloses the proxy voting numbers to those by disclosing them on the Company's website. In the event that a significant portion of voters have voted against a resolution, an explanation of what actions it intends to take to understand the reasons behind the vote will be included.

The Company's website is in compliance with the AIM Rules and will be updated on a regular basis with information regarding the Company's activities and performance, including financial information.

Signed on behalf of the Board by:

Mutiu Sunmonu
Non-Executive Chairman

8 July 2022

Audit and Risk Committee report

"The Audit and Risk Committee was focused on maintaining strong standards of governance and risk management during the year."

The Audit Committee comprises two members, both of whom are Independent Non-Executive Directors including the Chair, John Brown who was appointed on 7 May 2021 to replace Linda Beal, and Mutiu Sunmonu who are considered by the Board to have recent and relevant financial experience. The Audit and Risk Committee meets formally at least four times a year and otherwise as required and also meets with the Company's external auditors at least twice a year.

Roles and responsibilities

The main roles and responsibilities of the Audit and Risk Committee are to:

- monitor the integrity of the financial statements, including review of the accounting policies, key judgements and estimates adopted in preparing the financial statements, and any formal announcements relating to financial performance;
- review and monitor the Company's financial reporting, internal control and risk management systems to ensure that effective risk management and financial control frameworks have been implemented;
- make recommendations to the Board in relation to the appointment, reappointment or removal of the external auditor and approve engagement terms and fees of the auditor;
- review and monitor the scope of the annual external audit;
- review and monitor the independence of the external auditor; and
- consider the need for an internal auditor.

Internal control and risk management

San Leon has established terms of reference for the Audit and Risk Committee. This includes overview of the identification, categorisation and prioritisation of critical risks within the business and allocation of responsibility to its executives and senior managers. The objectives of this risk management policy are to:

- provide a structured risk management framework that will provide senior management and the Board with comfort that the risks confronting the organisation are identified and managed effectively;
- create an integrated risk management process owned and managed by the Group's personnel that is both continuous and effective;
- ensure that the management of risk is integrated into the development of strategic and business plans, and the achievement of the Group's vision and values; and
- ensure that the Board is regularly updated with reports by the Committee.

The Board also acknowledges its overall responsibility for ensuring that the Company has a system of internal control in place that is appropriate. This includes ensuring the implementation of policies and procedures that address risk identification and control, training and reporting.

Management is responsible for efficient and effective risk management across the activities of the Group.

The Audit and Risk Committee reviews the effectiveness of the implementation of the risk management system and internal control system annually. When reviewing risk management policies and the internal control system the Board takes into account the Company's legal obligations and also considers the reasonable expectations of the Company's stakeholders.

The key policies and procedures are:

- preparation of annual budgets for approval by the Board;
- ongoing review of expenditure and cash flow versus approved budget;
- establishment of appropriate cash flow management and treasury policies for the management of liquidity, currency and credit risk on financial assets and liabilities, along with delegations of authority and bank mandates;
- regular management, committee, and Board meetings, to review operating and financial activities;
- provide input in the recruitment of appropriately qualified and experienced staff to key financial and management positions;
- preparation of the annual report, related financial statements and annual audit thereof; and
- a risk management policy and procedure which incorporates a risk register to assist with the identification and management of risk.

The principal areas of risk for the Company are set out in the Directors' report on page 32.

The Audit and Risk Committee also ensures that appropriate procedures, resources and controls are in place to comply with the AIM rules and monitors compliance thereof. The Company has adopted a model code for Directors' share dealings which is appropriate for an AIM listed company. The Directors comply with Rule 21 of the AIM Rules relating to Directors' dealings and take all reasonable steps to ensure compliance by the Company's applicable employees. There are also anti-bribery and corruption, whistleblowing, and environmental policies, as well as an annual review of compliance with the Irish Companies Act 2014.

In order to ensure the independence and objectivity of the external auditor, the Audit and Risk Committee reviews the provision of non-audit services by its external auditor to ensure that such services do not impair the independence or objectivity of the external auditor.

Activities of the Audit Committee

The internal audit role was reviewed again in November 2020 and it was considered appropriate to restart the

Audit and Risk Committee report

Continued

programme during 2021. The internal audit role reports into the Audit and Risk Committee and the main processes of control reviewed during 2021 were as follows:

- Review of Procurement to Pay processes;
- Payroll controls review; and
- Treasury controls review.

The Audit and Risk Committee reviewed the Corporate Risk Register at its meeting on 17 May 2021.

2021 financial statements

The Audit and Risk Committee reviewed the 2021 interim financial statements.

The Audit and Risk Committee reviewed the planning of the 2021 audit and the annual report. With regard to the Group's financial statements, the Audit and Risk Committee considered:

- the appropriateness of the Group's key accounting policies;
- the clarity and acceptability of accounting policies and practices;
- the clarity of the disclosures and compliance with financial reporting standards and relevant financial and governance reporting requirements;
- material areas in which significant judgements have been applied or there has been discussion with the external auditor; and
- whether the Annual Report and financial statements taken as a whole present a fair, balanced and understandable body of information that provides the data necessary for shareholders to assess the Company's performance, business model and strategy.

The Audit and Risk Committee received and considered memoranda from management regarding these matters and discussed these with the external auditor.

The Audit and Risk Committee determined that the key risks of misstatement of the Group's financial statements related to the carrying value of the Loan Notes and equity interest for both MLPL and ELI and the Net Profit Interest ("NPI") on the Barryroe oil field and going concern. These matters were discussed with management during the year when the Committee considered the interim financial statements and in 2022 when the Committee reviewed the 2021 Annual Report and Financial Statements.

Valuation of MLPL Loan Notes and equity interest

At 31 December 2021 there was US$99.3 million* at par value (US$96.5 million under IFRS) outstanding (before interest) on the MLPL Loan Notes. The value of the equity interest in MLPL at 31 December 2021 was US$58.6 million. The Audit Committee considered the waiver granted to MLPL on repayment of the loan notes pending the completion of the Midwestern transaction and the ability of the underlying parties and assets to meet the obligation to the Company and the value of the equity interest both in the light of the performance to date and expected future performance. This is explained in detail in Note 13 and 15 of the financial statements.

Valuation of ELI Loan Notes and equity interest

At 31 December 2021 there was US$18.0 million* at par value (US$17.8 million under IFRS) outstanding (before interest) on the ELI Loan Notes. The value of the equity interest in ELI at 31 December 2021 was US$Nil. The Audit Committee considered the ability of the underlying parties and assets to meet the obligation to the Company and the value of the equity interest both in the light of the performance to date and expected future performance. This is explained in detail in Note 13 and 15 of the financial statements.

Valuation of 4.5% NPI on the Barryroe oil field

The carrying value of the 4.5% NPI on the Barryroe oil field at 31 December 2021 was decreased to US$4.3 million. The Company adopted the market-based valuation approach for this investment as it considered it a reasonable and appropriate method to determine carrying value. The Audit Committee noted the announcement post balance date that Providence Resources Ltd has raised US$1.8 million to address the near-term working capital requirements as well as to pursue its Lease Undertaking application for Barryroe and progress preparation for an appraisal well in 2023.

Going concern

The Audit Committee reviewed the detailed cash flow forecast for the Group and the Company for the period from 1 July 2022 to 31 December 2023 and the principal assumptions underlying the cash flow forecast. This included a review of the impact of the proposed Midwestern transaction as well various scenarios should the potential transaction not complete (see Note 1 to the Financial Statements). The Audit Committee considered all the likely scenarios and concluded that there exists a material uncertainty that the Group and Company will have adequate resources for the next 12 months. Nevertheless, despite the material uncertainty the Audit Committee concluded that there is a reasonable expectation that there will be adequate resources and it was therefore appropriate to recommend adoption of going concern as the basis of preparation of the financial statements.

Signed on behalf of the Audit and Risk Committee by:

John Brown
Audit and Risk Committee

8 July 2021

* *Refer to Alternate Performance Measures on page 133 for full reconciliation of IFRS numbers and Alternative Performance Measures.*

Remuneration Committee report

"The Remuneration Committee seeks to attract and retain individuals of the highest calibre to deliver the growth strategy of the Group."

The Group's policy on senior executive remuneration is designed to attract and retain individuals of the highest calibre who bring relevant experience and independent views to the development of policy, strategic decisions and governance of the Group.

Roles and Responsibilities

- Determine and agree with the Board the policy for the remuneration of the Chairman, the Executive Directors, the Company Secretary and such other members of the executive management as it is required by the Board to consider;
- Review and approve long and short-term incentive plans and payments including but not limited to share incentive plans, option plans, performance targets, bonuses, goals and remuneration package recommendations from the CEO in respect of Executive Directors;
- Review and approve long and short-term incentive plans for the Company; and
- Consider any matters as may be requested by the Board.

In determining remuneration levels, the Remuneration Committee takes into consideration the practices of other companies of similar scope and size. A key philosophy is that staff should be properly rewarded and motivated to perform in the best interests of the shareholders.

Director emoluments and pension contributions, excluding share option arrangements, during the year ended 31 December 2021 were as follows:

	Salary & emoluments US$'000	Bonus US$'000	Pension US$'000	Fees & services US$'000	Benefits US$'000	**2021 Total US$'000**
Mutiu Sunmonu [1]	–	–	–	164	–	**164**
Oisín Fanning	1,306	373	249	68	31	**2,027**
Joel Price	481	117	36	68	9	**711**
Julian Tedder [2]	39	–	3	6	–	**48**
Lisa Mitchell [3]	420	–	32	57	8	**517**
Alan Campbell [4]	167	–	11	24	2	**204**
Adekolapo Ademola	–	–	–	68	–	**68**
John Brown [5]	–	–	–	45	–	**45**
	2,413	490	331	500	50	**3,784**

1 The Group has a consultancy agreement with Mutiu Sunmonu and Greenbay Energy Resources Limited and Mutiu Sunmonu and Caledonian Properties Nigeria Limited. Please see Note 29 for further details.
2 Appointed 1 December 2021.
3 Resigned 29 October 2021.
4 Resigned as Director on 7 May 2021.
5 Appointed 7 May 2021.

Remuneration Committee report

Continued

Director emoluments and pension contributions, excluding share option arrangements, during the year ended 31 December 2020 were as follows:

	Salary & emoluments US$'000	Bonus US$'000	Pension US$'000	Fees & services US$'000	Benefits US$'000	2020 Total US$'000
Mutiu Sunmonu [1]	–	–	–	163	–	163
Oisín Fanning	1,334	593	–	68	26	2,021
Joel Price	448	193	33	68	8	750
Lisa Mitchell	448	193	33	68	7	749
Alan Campbell [2]	448	193	33	68	3	745
Mark Phillips [3]	–	–	–	33	–	33
Linda Beal [4]	–	–	–	63	–	63
Bill Higgs [5]	–	–	–	26	–	26
Adekolapo Ademola [6]	–	–	–	50	–	50
	2,678	1,172	99	607	44	4,600

1 *The Group has a consultancy agreement with Mutiu Sunmonu and Greenbay Energy Resources Limited and Mutiu Sunmonu and Caledonian Properties Nigeria Limited. Please see Note 29 for further details.*
2 *Resigned as Director on 7 May 2021.*
3 *Resigned 29 June 2020.*
4 *Resigned 7 December 2020.*
5 *Resigned 18 May 2020.*
6 *Appointed 7 April 2020.*

In addition to the emoluments above, in accordance with IFRS 2 share-based payments, a cost of US$Nil (2020: US$418,048) has been recognised in respect of share options granted to Directors. A total of US$Nil (2020: US$Nil) was recognised in respect of Directors options modified in the year. See Note 25 for further details of share options.

Directors' interests

The Directors and Company Secretary who held office at 31 December 2021, except where indicated, had no interests other than those shown below in the Ordinary Shares of the Company. All interests are beneficially held by the Directors.

	Number of Ordinary Shares		
Director	07/07/22	31/12/21	01/01/21
Oisín Fanning	9,495,864	9,495,864	9,495,864

Share options

Details of share options granted to the Directors are as follows:

	Options at 01/01/21	Granted in year	Lapsed in year	Options at 31/12/21	Exercise price	Expiry date
Mutiu Sunmonu	1,000,000	–	–	1,000,000	£0.45	20/09/23
Oisín Fanning	1,500,000	–	–	1,500,000	£0.45	20/09/23
Joel Price	2,000,000	–	–	2,000,000	£0.45	30/09/22
	1,500,000	–	–	1,500,000	£0.45	20/09/23
Alan Campbell [1]	2,000,000	–	–	2,000,000	£0.45	30/09/22
	1,500,000	–	–	1,500,000	£0.45	20/09/23
Lisa Mitchell [2]	1,000,000	–	(1,000,000)	–	£0.45	22/03/28
Adekolapo Ademola [3]	1,000,000	–	–	1,000,000	£0.45	22/03/28

1 *Resigned on 7 May 2021.*
2 *Resigned on 29 October 2021.*
3 *On his appointment on 7 April 2020, the Board approved the grant of 1,000,000 of share options at a strike price of £0.45, however as the Company was in a close period at the date of award these options were not formally awarded at the time. The fair value of these options has been calculated at US$344,332. The options have since been awarded on 23 March 2021.*

Transactions involving Directors

Contracts and arrangements of significance during the year in which Directors of the Company were interested are disclosed in Note 29 to the financial statements.

Signed on behalf of the Remuneration Committee by:

Mutiu Sunmonu
Remuneration Committee Chair

8 July 2022

Nomination Committee report

"For the Group to deliver its strategy it needs a leadership team with the requisite skills and experience."

The Committee held three meetings in 2021. Membership during the year comprised of the Chairman Mutiu Sunmonu, Adekolapo Ademola (appointed to the Nomination Committee on 25 May 2021), the Chief Executive Officer Oisín Fanning and John Brown (appointed on 7 May 2021).

Role and Responsibilities

- Review the structure, size and composition of the Board and recommend any changes to the Board;
- Carry out succession planning for the Board and other senior executives;
- Be responsible for filling board vacancies when they arise and, before any appointment is made, evaluating the balance of skills, knowledge, and experience on the Board; and
- Make recommendations to the Board on all new appointments to the Board.

The Committee continues to regularly review the structure, size and composition (including the skills, knowledge and experience) required of the Board compared to its current position and will make recommendations as required to the Board on the Board's composition and balance.

Before any appointment is made by the Board, the Committee will evaluate the balance of the skills, knowledge and experience on the Board, and in light of this evaluation prepare a description of the role and capabilities required for a particular appointment. In identifying suitable candidates, the Committee shall consider using services of external advisors to facilitate the search for candidates from a wide range of backgrounds; and on merit and against objective criteria, take care that appointees have enough time available to devote to the position.

The Committee also will review the Directors' existing conflicts of interests every six months, or more frequently as required. Board succession planning is an ongoing consideration and we continue to focus on this.

During 2021 John Brown was appointed to the Board as Independent Non-Executive Director and Chair of the Audit and Risk Committee, and member of the Remuneration and Nomination Committees and Julian Tedder was appointed to the Board as Chief Financial Officer

The Committee is of the view that the Board including the current senior team is fit for purpose, with the requisite skills and experience to support the business.

In accordance with the Articles of Association, Mutiu Sunmonu and Oisín Fanning retire from the Board by rotation and, being eligible, offer themselves for re-election.

Mutiu Sunmonu
Nomination Committee Chair

8 July 2022

Health and Safety Committee report

"The Health and Safety Committee is committed to ensuring that health and safety is the top priority of the Group."

During 2021 the Health and Safety Committee reviewed the terms of reference, a copy of which is available on the Company's website.

Roles and Responsibilities

The management of business and operational risk is a key success factor for the Company, as such the Committee will:

- Report significant changes to the operational risk profile of the business as necessary;
- Monitor the Company's risk assessment procedure and action plans for all operational risks; and
- Ensure that the controls to prevent and mitigate the most significant operational risks for the business are in place and functioning.

Health, Safety and Environment

The protection of people, the environment and our assets are central to San Leon Energy's values and principles and as such the Committee will:

- Ensure health and safety audits of each operation and country office are carried out at such times that the Committee deems appropriate considering the scale and nature of the operations; and
- Ensure the Company's Health, Safety and Environmental Policy ("HSE Policy") meets or exceeds international oil and gas practice appropriate to the Company's operations and meets the required legal and regulatory standards for the jurisdictions in which we work.

Ethics and Corporate Social Responsibility

The Company will conduct business with the highest ethical values and will be socially responsible in the communities in which we work.

The Committee will govern the Company's ethics policy and code of ethics to ensure ethical business practice.

Security

The security of our people and our assets is of paramount importance to the Company, as such the Committee will:

- Ensure appropriate security controls and systems are in place and operational; and
- Ensure that the Company's journey management procedure is adequate and functioning.

An updated health, safety, environment and quality management system was noted as being required for office based activity, inclusive of a journey management policy. In the interim, standard journey management protocols are being followed for travel to Nigeria.

Anti-Bribery and Corruption, and Whistleblowing policies, have been circulated to all employees and acknowledged. The Ethics and Corporate Social Responsibility policies are to be reviewed.

Given the importance and increased focus on ESG since Covid-19, the ESG Committee was formally constituted in December 2020. The ESG Committee did not meet in 2021 due to the changes to the Board composition during the year, but will meet in 2022 on at least two occasions to develop the Committee's Terms of Reference and fully establish the Group's ESG strategy and targets for the years to come.

Mutiu Sunmonu
Health and Safety Committee Chair

8 July 2022

Directors' report

for the year ended 31 December 2021

The Directors present their annual report together with the audited financial statements of San Leon Energy plc ("the Company") and its subsidiaries (collectively "the Group") for the year ended 31 December 2021.

Principal activity and future developments

The principal activities of the Company are the holding of an initial indirect 10.58% economic interest in OML 18 Nigeria, through its investment in MLPL, and the exploration and production of oil and gas, and a 13.323% interest in Energy Link Infrastructure (Malta) Ltd ("ELI"). ELI's sole asset is the proposed new Alternative Crude Oil Evacuation System ("ACOES") constructed to provide a dedicated oil export route from the OML 18 asset to a Floating Storage and Offloading ("FSO") vessel.

A detailed review of activities for the year and future prospects of the Group is contained in the Chairman's Statement and CEO's Statement.

Results and dividends

The Group profit/(loss) for the year after providing for depreciation and taxation amounted to a profit of US$40.7 million (2020: loss of US$11.9 million). Net assets of the Group at 31 December 2021 amounted to US$176.2 million (2020: US$152.1 million). Exploration & evaluation impairments/write off totalled US$0.2 million in 2021 (2020: US$0.2 million). There was no special dividend paid in 2021 (2020: US$33.3 million).

Principal risks and uncertainties

There are a number of potential risks and uncertainties that could have a material impact on the Group's long-term performance. The Board has overall responsibility for managing risk.

The Group's principal areas of oil and gas exploration and production activity are in Nigeria and a Net Profit Interest on the Barryroe oil field (offshore Ireland). The Group has a management structure and system of internal controls in place designed to identify, evaluate, manage and mitigate business risk, including health and safety risks. Risks are formally identified and recorded in a risk register which is reviewed by the Board and appropriate processes are in place to implement and monitor mitigating controls.

The Executive Directors are closely involved in the day-to-day management of the business and have oversight of all the controls the business has in place, including financial, operational (including health and safety) and compliance controls, as well as overseeing risk management. Each Board member commits sufficient time to fulfil their duties and obligations to the Board and the Company.

The Audit and Risk Committee, which is comprised of certain Independent Non-Executive Directors, monitors and promotes high standards of integrity, financial reporting, risk management and internal control. For details of the Audit and Risk Committee's performance refer to the Audit and Risk Committee Report on page 24. Risks and uncertainties, which are not exhaustive, which are particularly relevant to the Company and the Group's business activities are considered to be the following:

Going concern and Loan Notes repayment

The Directors have prepared a detailed cash flow forecast for the period from 1 July 2022 to 31 December 2023. The principal assumptions underlying the base case cash flow forecast and the availability of finance to the Group are that the proposed Midwestern transaction is completed in Q4 2022, Eroton acquires an additional 18% interest in OML 18 and a loan of US$50 million is secured to finance the Potential Transaction.

Due to the potential Transaction not having completed at the date of the Annual Report there is an inherent material uncertainty that completion will occur as anticipated. The Group has modelled various other scenarios assuming the Potential Transaction does not complete and given the Group's well understood cost base, the principal uncertainty if the Potential Transaction does not complete relates to the quantum and timing of receipt of interest and capital repayments on the Loan Notes with MLPL and ELI.

Based on its consideration of the Group cash flow projections and underlying assumptions, the Directors have concluded that the combination of circumstances underpinned by the completion of the Potential Transaction represents a material uncertainty which may cast significant doubt on the Group's ability to continue as a going concern.

Nevertheless, the Directors have a reasonable expectation that the Group will have adequate resources to continue to discharge its debts as they fall due for a period of at least 12 months from the date of the Annual Report. Accordingly, the Directors continue to adopt the going concern basis of preparation of the financial statements for the year ended 31 December 2022.

Risk Management

Managing risks in an international oil and gas company is essential to stability and long-term sustainability. The Company's Board has overall responsibility for risk identification and control and has developed a risk management structure to identify risks, evaluate the impact of certain risks, assess the likelihood of risks occurring and implementing risk mitigation measures where possible to reduce each risk to an acceptable level in accordance with the Group's appetite for risk.

Risks are formally identified and recorded in a risk register which is reviewed twice a year by the Board and at every Audit and Risk committee meeting by the Audit and Risk Committee. The Executive Directors are closely involved in the day-to-day management of the business and have oversight of all the controls the business has in place, including financial, operational (including HSE) and compliance controls, as well as overseeing risk management.

As part of our overall goal to reduce risk across the organisation, a Risk Management Policy and Procedure was developed and presented to the Audit and Risk Committee in February 2020. This provides a procedure for the management of the Company's risk. As part of the risk management procedure, the Company has developed a detailed risk register which identifies business continuity risks, corporate governance risks, security risks, financial risks and health, safety and environment protection risks.

The Board recognises that risk cannot be fully eliminated but it is their responsibility to ensure that risk assessment and mitigation is as thorough and vigorous as possible. The following principal risks and uncertainties, which are not exhaustive, with their mitigation actions are particularly relevant to the Company.

Risk	Detail	Mitigation	Executive ownership	Year on year change
STRATEGIC RISK				
Potential Transaction does not complete	The Potential Transactions are complex and there is a high degree of interaction between the various aspects of the transactions and a risk that they may not complete.	• Engage with all the counterparties to complete all required legal agreements; • Ensure new loan is drawn down to allow funding of the further ELI transactions; and • Work closely with Midwestern to ensure all conditions to completion are satisfied.	CEO – Oisín Fanning	New risk
Lack of MLPL Loan Notes Repayments	• The Company will not be able to fund current operations or invest for future expansion.	• Strong financial discipline. • Maintain sufficient working capital for 12 months look ahead. • Monitor the situation and maintain dialogue and good relations with OML 18 partners and investors, relevant Nigerian national and regional authorities. • Midwestern Oil and Gas Limited Loan Note guarantee. • If the Potential Transaction completes later in 2022, the MLPL Loan Notes will be extinguished as part of the consideration.	CFO – Julian Tedder	No change
Partnership risk	• Risk of relationship with partners deteriorating or partner having insufficient financial or technical resources.	• Partners in joint ventures are reputable with significant experience and financial resources. Continuous dialogue maintained with partners. • The Company has Board representation throughout the ownership structure allowing a transparent working relationship.	CEO – Oisín Fanning	No change

Risk	Detail	Mitigation	Executive ownership	Year on year change
STRATEGIC RISK CONTINUED				
Further pandemics	• Further lockdowns due to new pandemics or continued Covid-19 escalation creating renewed pressure on oil pricing. • Reduced income stream and repayment of loan notes due to this.	• Continue to follow government advice and lockdown measures whilst maintaining and minimizing disruption to business. • Implement suitable safety policy that can be implemented for staff and visitors should there be further pandemics. • Continued close relationships with partners.	CEO – Oisín Fanning	Decreased
OPERATIONAL RISK				
Political Instability / OML 18 operational disruption	• OML 18 operations are exposed to the risk of delays and interruptions to production due to various causes including political instability, sabotage, pipeline losses, operational downtime, slow progress caused by unexpected downhole challenges, operational funding, and procedural delays with JV partners and authorities. • Severe operational delays or disruption could lead to an inability to produce oil and repay the Eroton RBL debt facility, which could lead to the loss of OML 18, or an inability to pay dividends.	• Eroton is a local experienced operator completely focused on OML 18 regulatory requirements and maintaining dialogue with local communities. • San Leon Energy provides Eroton with technical and financial services through an Asset Management Agreement.	CEO – Oisín Fanning	No change
Geological and development Risk	• The Company depends on maintaining successful development projects to achieve revenue and success. However, the level of production and cash flow from OML 18 is an estimated value and may not materialise as originally expected. This risk is specific to the geological and engineering factors involved in estimation and projection of the expected capacity of new or existing projects.	• The Group utilises its experience, external contractors and that of its partners, in particular Eroton, to determine the resource and development assumptions to ensure the Board maintains a realistic view of resources and development expectations. • Annual review of reserves by an independent consultant. • Ensure industry best practice regarding technical estimates and judgements.	COO – Joel Price	No change

Risk	Detail	Mitigation	Executive ownership	Year on year change
OPERATIONAL RISK CONTINUED				
Health, Safety & Environmental risk	• The industry faces high risk operating conditions and HSE risks, posing the threat of Industrial accidents; natural disasters. • Impact from a pandemic or epidemic affects the ability of the Company or the Joint Ventures from being able to successfully operate the assets. (Such as Covid-19 virus.)	• The Company has a Health and Safety Committee to ensure risks are managed appropriately in accordance with international best practice and legislation. • Promote and facilitate best practice international standards. • Embedding a strong HSE culture, with support at a high level in the Company. • Adequate insurances to be in place at the operational level. • The Company is dependent on its operating partners to impose and maintain required standards to operations. • Early adoption of guidance based on World Health Organisation ("WHO") guidance.	COO – Joel Price	No change
Cyber risk	• Major cyber breach may result in loss of confidential data and business disruption.	• Prevention software in place and regularly monitored. • Back-up system and business recovery plan in place.	CFO – Julian Tedder	No change
Human resource risk	• Ability to recruit and retain key senior personnel in key senior management positions is essential to ensure success.	• Compensation packages are discussed at the Remuneration Committee and approved by the full Board, with remuneration for key executives being highly competitive. • Staff packages are validated for competitiveness. • Flexible working arrangements allowed. • Creation of a long-term incentive scheme to align management remuneration with creation of Shareholder value.	CEO – Oisín Fanning	No change
FINANCIAL RISK				
Commodity price risk	• Volatility and decreases in oil or natural gas prices can lead to insufficient funds to finance growth plans. This may lead to the inability to repay Reserve Based Lending facility debt, or inability to pay dividends. The field could become uneconomic and there would be an inability to fund capital development.	• The demand for, and price of oil and gas is dependent on supply and demand, actions of governments and general global economic and political developments. Eroton, as operator of OML 18, have hedging requirements under its RBL facility. • Capital discipline and monitoring.	CFO – Julian Tedder	Decreased

Risk	Detail	Mitigation	Executive ownership	Year on year change
FINANCIAL RISK CONTINUED				
Availability of capital / insufficient funds	• The Oil and Gas industry is capital intensive with significant amounts of capital required for development of assets. The Group's business partners may require significant capital expenditure and the future expansion and development of its business could require future debt and equity financing. The future availability of such funding may not always be certain, which may lead to funding shortages. • Insufficient funds at the Group level to finance growth and pay dividends.	• Active dialogue maintained with financial institutions and investors. • There is a significant population of investors who are willing to invest in companies like San Leon. • Management has a strong track record of successful fundraisings. • Discretionary spend actively managed. • Continued engagement with partners and lenders. • Maintain controls in relation to systems and processes around spend and Delegation of Authority. • Monthly reporting. • Forecasting. • Maintain financial discipline.	CFO – Julian Tedder	No change
REPUTATIONAL RISK				
Bribery & corruption	• Reputational damage and exposure to possible criminal charges.	• The area in which the Company holds its material asset scores high relatively to many countries with regard to bribery and corruption issues. The Company has a zero-tolerance policy on such matters. The Company has an Anti-Bribery & Corruption Policy in place that is monitored and updated in accordance with UK standards. The Company also has a Whistleblowing Policy in place to encourage confidential reporting of any issues that may be illegal or suspicious.	CEO – Oisín Fanning	No change

Directors

The Directors of San Leon Energy plc, all of whom served for the full year, except where indicated, are as follows:

- Mutiu Sunmonu, *Non-Executive Chairman*
- Oisín Fanning, *Chief Executive Officer*
- Joel Price, *Chief Operating Officer*
- Julian Tedder, *Chief Financial Officer (appointed 1 December 2021)*
- Alan Campbell, *Commercial and Business Development Director (resigned 7 May 2021)*
- Lisa Mitchell, *Chief Financial Officer (resigned 29 October 2021)*
- Adekolapo Ademola, *Non-Executive Director*
- John Brown, *Independent Non-Executive Director (appointed 7 May 2021)*

In accordance with the Articles of Association, Mutiu Sunmonu and Oisín Fanning retire from the Board by rotation and, being eligible, offer themselves for re-election.

Significant shareholders

The Company has been informed that, in addition to the interests of the Directors at 31 December 2021 (see Remuneration Report), the following shareholders owned 3% or more of the issued share capital of the Company:

	Percentage of issued share capital		
	07/07/22	31/12/21	31/12/20
Funds managed by Toscafund Asset Management LLP	72.62%	72.62%	73.47%
Midwestern Oil & Gas Company Limited	13.18%	13.18%	13.18%

The Directors are not aware of any other holding of 3% or more of the share capital of the Company.

Acquisition of own shares

In 2021 the Company did not repurchase any of its own shares (2020: The Company completed the repurchase of US$2.0 million of its own shares between October 2019 and January 2020).

Accounting records

The Directors are responsible for ensuring adequate accounting records, as outlined in Section 281 to 285 of the Companies Act 2014, are kept by the Company. The Directors, through the use of appropriate procedures and systems and the employment of competent persons, have ensured that measures are in place to secure compliance with these requirements. The books and accounting records are maintained at 3300 Lake Drive, Citywest Business Campus, Dublin 24.

Group transparency

Part 26 of the Companies (Accounting) Act 2014 came into force on 1 January 2017. This required companies operating in the extractive sector to publicly disclose payments made to National Governments. The Act implements Chapter 10 of EU Accounting Directive (2013/34/EU).

The payments disclosed are based on where the obligation arose which in our case is Ireland and Poland. Payments are disclosed by licence where the aggregate of the payment in the year exceeds US$100,000 otherwise, they are combined into a corporate level payment which consolidated all the smaller payments.

All of the payments disclosed in accordance with the law have been made to National Governments, covering both direct and indirect payments.

The payments type covered by this disclosure are:

- Licence fees: licence fees cover the costs associated with holding each of our licences.

Licence	Licence fees US$'000
2021	
Corporate #	–
Total Poland	–
2020	
Corporate #	–
Total Poland	–

 # Corporate is the consolidated total of all our Polish licences where the total of each licence payment in the year is less than US$100,000.

Relevant audit information

The Directors believe that they have taken all necessary steps to make themselves aware of any relevant audit information and have established that the Company's statutory auditors are aware of this information. In so far as they are aware there is no relevant audit information of which the Company's statutory auditors are unaware.

Events since the year end

Details of significant events since the year end are included in Note 31 to the financial statements.

Group undertakings

Details of the Company's subsidiaries are set out in Note B (page 114) to the financial statements.

Donations

There were no political donations made during the current or prior year. Charitable donations were made of US$4,285 (2020: US$6,000).

Compliance policy statement of San Leon Energy plc

The Directors, in accordance with Section 225(2) of the Companies Act 2014, acknowledge that they are responsible for securing the Company's compliance with certain obligations specified in that section ('relevant obligations'). The Directors confirm that:

- a compliance policy statement has been drawn up setting out the Company's policies that in their opinion are appropriate with regard to such compliance;
- appropriate arrangements and structures have been put in place that, in their opinion, are designed to provide reasonable assurance of compliance in all material respects with those relevant obligations; and
- a review has been conducted, during the financial year, of those arrangements and structures.

Auditor

The Auditor, KPMG, Chartered Accountants, were first appointed statutory auditor on 9 September 2010 and have been re-appointed annually since that date and pursuant to Section 282(2) of Companies Act 2014 will continue in office.

Oisín Fanning
Chief Executive Officer

Julian Tedder
Chief Financial Officer

8 July 2022

Corporate Responsibility

Supporting Health, Education and Communities: Results from our Corporate Responsibility policy in action are being seen

Above and right: Food deliveries to Benue, Karo, Gwagwalada and Keffi area and also to Ugwaka, Ollah, Igwogwo, Ojaji, Okotobo areas over Christmas 2021.

San Leon Energy continues to be committed to and takes its Corporate Social Responsibility in countries in which we have an interest very seriously. The Company contributes directly to projects in Nigeria when possible and where we trust our contributions can have a direct impact on the environment and communities we seek to assist.

ESG & Sustainability

San Leon continues its commitment to ensuring that we operate our business in a way that is sustainable and benefits the local communities in which we have a presence. Given the importance and increased focus on ESG throughout the pandemic, the ESG Committee was formally constituted in December 2020, and despite the challenges caused by the covid pandemic in 2021, the Company continued to support and deliver many sustainable projects.

The UN's Sustainable Development Goals ("SDGs"), a collection of 17 goals designed to be a 'blueprint to achieve a better and more sustainable future for all' guides how we as a company can best contribute to helping the world meet these goals by 2030.

Environmental

As a company engaged in the exploration and development of oil and gas resources, care for the environment is one of our key responsibilities and an integral part of our business. San Leon is committed to ensuring that the Company complies with all relevant environmental legislation, regulations and approved practices to ensure that our impact on the environment and contribution to pollution is minimised.

In our environmental policy, San Leon is committed to:

- Comply with all relevant environmental legislation, regulations and approved codes of practice;
- Protect the environment by striving to prevent and minimise our contribution to pollution of land, air, and water;
- Seek to keep wastage to a minimum and maximise the efficient use of materials and resources;
- Manage and dispose of all waste in a responsible manner;
- Provide training for our staff so that we all work in accordance with this policy and within an environmentally aware culture;
- Regularly communicate our environmental performance to our employees and other significant stakeholders;
- Develop our management processes to ensure that environmental factors are considered during planning and implementation; and
- Monitor and continuously improve our environmental performance.

The policy statement is regularly reviewed and updated as necessary. The management team endorses these policy statements and is fully committed to their implementation.

Corporate Responsibility

Continued

We have been encouraged to build on our work, year-on-year, by seeing how it has enabled others to willingly grasp new projects and shape a sustainable future for their families and communities.

San Leon has supported hundreds of young and vulnerable people in education through direct support and by funding the construction of new schools in Nigeria.

Social

San Leon firmly believes that by enabling people through skills development and education, all stakeholders in society will benefit from growth and prosperity.

San Leon is committed to supporting health, education and community projects in countries in which we have a presence. The Company wants to meet its social responsibilities and contribute directly to society when possible and where we trust our contributions can have a direct impact on the environment and communities we seek to assist.

In Nigeria, for example, San Leon has seen the immense benefits derived by communities where a medical centre, water projects, schools, educational support and training have been provided. We have witnessed amazing people build on the support we have been honoured to give – where local government and communities subsequently staffed and used the new facilities built by San Leon, to allow society to blossom. We have been encouraged to build on our work, year-on-year, by seeing how it has enabled others to willingly grasp these new projects and shape a sustainable future for their families and communities.

The building of projects is in addition to our ongoing training and support for small women led enterprises and the installation of motorised water supply stations that can often transform people's daily lives and assist sustainable living. San Leon has also helped many impoverished and vulnerable families by contributing food, shelter, clothing as well as direct educational and medical support.

Supporting education

While immediate daily supports are critical for some families, we firmly believe in seeking ways to break the cycles of poverty by supporting education as a way to underpin hope and change in the future. San Leon has supported hundreds of young and vulnerable people in education through direct support and by funding the construction of new schools in Nigeria.

In April 2021, San Leon completed a new six classroom block in Awo-Ogbagbala, a remote area in Kogi state. Prior to San Leon providing almost 300 pupils with a new six-classroom school complete, with desks, books and school uniforms these children had to endure education in an open-sided hut, with no desks, books or materials. Education for these children was limited and almost non-existent at times, but we have been told the new school, like others built through support from San Leon, has given children a previously dreamt-of learning space.

Continuing on that success, San Leon immediately began another school project which began in April, 2021 in Ikeje in Kogi State. It was completed in November 2021, allowing more than 220 pupils to restart their education with uniforms, books and desks. They too left behind the inadequacy of an open sided hut.

With the completion and furnishing of these two schools, San Leon has built five new schools in Achai, Abayol, Achusa, Awo-Ogbagbala and Ikeje which we hope lays the foundation for a better tomorrow for these children and their communities.

San Leon also continues to support education in other ways by:

- covering tuition fees for third level students;
- providing the fees, books and school clothes for orphans and vulnerable children in Kojoli, Adamawa State in the North-Eastern part of Nigeria; and
- providing school fees, books, and exam fees for children from poor homes mostly in Makurdi and Idah areas.

Education

San Leon firmly believes in seeking ways to break the cycles of poverty by supporting education as a way to underpin hope and change in the future. We have built five new schools in Achai, Abayol, Achusa, Awo-Ogbagbala and Ikeje which we hope lays the foundation for a better tomorrow for these children and their communities.

San Leon believes that by enabling people through skills development and education, all stakeholders in society will benefit from growth and prosperity. San Leon has built and furnished five schools which we hope lays the foundation for a better tomorrow for these children and their communities.

Opposite: The Ogbagbala and Ikeje open-sided huts where children were educated prior to moving into the two new schools.

Top: In April 2021 the new six classroom block in Awo-Ogbagbala, a remote area in Kogi state. Prior to San Leon providing almost 300 pupils with the school complete, with desks, books and school uniforms the children had to endure education in an open-sided hut, with no desks, books or materials.

Above: The second school project in Ikeje, Kogi State, completed in November 2021, allowing more than 220 pupils to restart their education with uniforms, books, and desks.

Corporate Responsibility

Continued

The Company supports the training and establishment of women-led enterprises that can provide people with a sustainable source of income. San Leon was delighted to see 20 more women graduate from catering school in 2021 through support by the Company. The women who were trained in tailoring have also been busy making school uniforms for new schools built in 2021.

Supporting women-led enterprise

The Company also supports the training and establishment of small women-led enterprises that can provide people with a sustainable source of income. Following the hugely successful training of approximately 60 women from the states of Nassarawa, Benue State, Enugu, Kogi, and Gwagwalada in tailoring and catering, San Leon was delighted to see 20 more women graduate from catering school in 2021 through support by the Company.

Many of these women have set up their own small enterprises and the catering graduates can hope to establish small businesses like cake making, bakeries and food vending. Many of these women have been employed in restaurants and eateries within and outside the communities, while others have set up bean cake shops, eateries and food stalls. We have also been told some now have fruit juice shops, using fruits available in the local communities.

We have been informed this support is transforming lives given where many women who before now were struggling with obtaining the most basic necessity of life, food, are today able to afford food and educate their children. The women who were trained in tailoring have also been busy making school uniforms for new schools built in 2021.

Above: Of the 20 women who graduated from the Catering School in 2021, many are now employed in restaurants and eateries in their local communities.

Water infrastructure projects

Through our presence in Nigeria, we have seen how water supply projects have not only relieved the suffering of these communities but have given dignity, health, time and opportunities to people in the villages, particularly to young girls and women who are mostly burdened with walking long distances in search of water in streams and rivers that are often unhygienic.

Following on from our successful water projects in Mbalom, Benue State and Igwo-gwo in Kogi State in previous years, San Leon particularly focused on providing other communities with water in 2021. Two additional water projects were successfully completed in the Yaikyo-Kanshio community of Benue State and Ochaja, Kogi State, in the first half of 2021, and a further water project was completed in Amuna-Ateodu, Kogi State, in October 2021.

It is often very difficult, and sometimes unsuccessful, when trying to drill for water sources in communities in Nigeria, and San Leon encountered many days throughout 2021 when the community of Odolu, in Kogi State were wondering if water could be found in for their remote village. There were times that the project could have faltered but with the persistence of local people and engineers, we were delighted to be told that the Odolu water project was completed and commissioned on Christmas Eve 2021, an event which brought a great sense of the joy and hope to this community.

With the completion of this project, San Leon has supported the provision of clean water for six communities across Benue and Kogi States in Mbalom, Igwo-gwo, Yaikyo-Kanshio, Ochaja, Amuna-Ateodu and Odolu.

By providing motorised water boreholes and storage tanks, the projects have not only relieved the daily toil of getting water for these communities and their immediate neighbours but time saved can be spent on education, work and with families.

Women-led enterprise

We have funded the training of approximately 50 women from the states of Nassarawa, Benue State, Enugu, Kogi, and Gwagwalada in tailoring and each woman was donated a sewing machine to establish their own enterprise, as making traditional African clothing and other clothing is a sustainable local business.

Water projects

Through our presence in Nigeria, it has been brought home to us the importance of water infrastructure in communities and the onerous task many families face each day to gather water. This burden often falls on girls and women who have to walk long hard distances in search of water in streams and unhygienic rivers.

With the completion of these projects, San Leon has supported the provision of clean water and transformed the lives of children and families in six communities across Benue and Kogi States.

By seeking to help people across communities, San Leon has been told it has transformed the lives of children and families. We hope, as part of our Corporate Social Responsibility, that we are positively benefitting society and giving optimism, dignity and strength to people trying to rebuild or better their lives and by also focusing on infrastructural projects, we hope we will leave a positive lasting impact on communities.

Top left and right: The water project in Amuna-Ateodu, Kogi State, was completed in October 2021.

Right and below: The Odolu water project was completed and commissioned on Christmas Eve 2021, bringing a great sense of the joy and hope to the community.

Broader responsibility

San Leon Energy actively seeks community involvement, dialogue and debate and we seek to maintain high standards to ensure we meet our broader responsibility towards communities and the environments we work in.

We welcome strict regulation and monitoring of our activities by authorities. We work with regulators and inspectors to make sure we meet best practice in our operations and implement best communication processes.

We are happy to respond to any questions or issues people raise and believe dialogue at all levels increases understanding and trust.

We have also been fortunate to provide local employment and foster talent through the investment we are making in local economies. By investing in and supporting local business, education, health and employment, we believe we are investing in all of us.

Governance

The Company seeks to maintain high standards of corporate governance to ensure the business is run effectively. We aim to conduct our business in an open, honest and ethical manner. The Board is accountable to shareholders for good corporate governance and has adopted the principles of the Quoted Companies Alliance Corporate Governance Code to make sure that focus remains on the pursuit of medium to long term value for shareholders and company stakeholders more broadly.

As part of this, we seek to behave as a responsible employer and make positive contributions to the local economies in which we have an interest. Engagement with local communities in which we operate and conducting social work has helped them understand what we are doing.

Statement of Directors' responsibilities

in respect of the annual report and the financial statements

The Directors are responsible for preparing the annual report and the Group and Company financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare Group and Company financial statements for each financial year. As required by the AIM Rules, they are required to prepare the Group financial statements in accordance with IFRS as adopted by the EU. The Directors have elected to prepare the Company financial statements in accordance with IFRS as adopted by the EU and as applied in accordance with the Companies Act 2014.

Under company law the Directors must not approve the Group and Company financial statements unless they are satisfied that they give a true and fair view of the assets, liabilities and financial position of the Group and Company and of the Group's profit or loss for that year. In preparing each of the Group and Company financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- assess the Group and Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Group or Company or to cease operations, or have no realistic alternative but to do so.

The Directors are responsible for keeping adequate accounting records which disclose with reasonable accuracy at any time the assets, liabilities, financial position of the Group and Company and the profit and loss of the Group and which enable them to ensure that the financial statements comply with the provision of the Companies Act 2014. The Directors are also responsible for taking all reasonable steps to ensure such records are kept by its subsidiaries which enable them to ensure that the financial statements of the Group comply with the provisions of the Companies Act 2014. They are responsible for such internal controls as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have a general 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. The Directors are also responsible for preparing a Directors' report that complies with the requirements of the Companies Act 2014.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the Republic of Ireland governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

On behalf of the board

Oisín Fanning
Director

Julian Tedder
Director

8 July 2022

Financial statements

Financial statements

Company financial statements

Other information

Independent Auditor's report

to the members of San Leon Energy plc

Report on the audit of the financial statements

Opinion

We have audited the financial statements of San Leon Energy plc ("the Company") and its consolidated undertakings ("the Group") for the year ended 31 December 2021 set out on pages 52 to 132, which comprise the Consolidated Income Statement, the Consolidated Statement of Other Comprehensive Income, the Consolidated and Company Statements of Changes in Equity, the Consolidated and Company Statements of Financial Position, Consolidated and Company Statements of Cash Flows and related notes, including the summary of significant accounting policies set out in Note 1. The financial reporting framework that has been applied in their preparation is Irish Law and International Financial Reporting Standards ("IFRS") as adopted by the European Union.

In our opinion:

- the financial statements give a true and fair view of the assets, liabilities and financial position of the Group and Company as at 31 December 2021 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRS as adopted by the European Union;
- the Company financial statements have been properly prepared in accordance with IFRS as adopted by the European Union, as applied in accordance with the provisions of the Companies Act 2014; and
- the Group and Company financial statements have been properly prepared in accordance with the requirements of the Companies Act 2014.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (Ireland) (ISAs (Ireland)) and applicable law. 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 have fulfilled our ethical responsibilities under, and we remained independent of the Group in accordance with ethical requirements that are relevant to our audit of financial statements in Ireland, including the Ethical Standard issued by the Irish Auditing and Accounting Supervisory Authority ("IAASA"), as applied to listed entities.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material uncertainty related to going concern

We draw attention to Note 1 in the financial statements, which indicates that there is an inherent material uncertainty concerning the Group's and Company's ability to continue as going concerns due to uncertainty associated with the completion of the proposed reorganisation transaction, which may not occur, which underpins a number of other related assumptions (outlined below).

As stated in Note 1, these events or conditions, along with the other matters explained in Note 1, indicate that a material uncertainty exists that may cast significant doubt on the Group's and the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

In auditing the financial statements, we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Our evaluation of the Directors' assessment of the Group's and the Company's ability to continue to adopt the going concern basis of accounting included considering the inherent risks to the Group's and Company's business model and analysing how those risks might affect the Group's and Company's financial resources or ability to continue operations over the going concern period.

The sensitivities we considered most likely to adversely affect the Group's and Company's future financial resources over the going concern period is the significant uncertainty associated with the completion of the potential reorganisation transaction and related assumptions.

Uncertainty relating to the completion of the proposed reorganisation transaction, to consolidate Midwestern Oil and Gas Company Limited's ("Midwestern") shareholdings in: i) the Company; and ii) Midwestern Leon Petroleum Limited ("MLPL") into a single shareholding in the Company (the "Potential Transaction"), that it completes in the second half of 2022.

The condition outlined below needs to be met for the transaction to complete:

- Eroton Exploration and Production Company Limited ("Eroton") to acquire an additional 18% interest in OML 18 from two of the other partners in OML 18, thereby taking Eroton's interest in OML 18 to 45%. This is subject, inter alia, to: i) agreeing documentation; ii) finalising bank financing; and iii) receiving the relevant regulatory consents in Nigeria.

The uncertainty of completion of the Potential Transaction is interlinked with the valuation of investment in and Loan Notes from Midwestern Leon Petroleum Limited ("MLPL") and valuation of investment in and Loan Notes from Energy Link Infrastructure (Malta) Limited ("ELI").

We draw attention to Notes 13(i-ii) and 15(i-ii) to the financial statements concerning the assessment of the Group's investments in and related Loan Notes due from MLPL and ELI.

We considered various downside scenarios over the level of available financial resources indicated by the Group's forecasts. A key judgement in the downside scenarios is that there is dependence on cash flows from financial Loan Notes within the Group and availability of third party funding.

The Directors have acknowledged that the Group has secured a US$50 million loan for the Potential Transaction. However, while working capital requirements of the Group can be met for the 12-month period, the Directors believe the continued viability of the Group and Company beyond the 12-month period is dependent on the completion of the Proposed Transaction. This creates significant uncertainty upon the Group and Company's ability to continue as a going concern beyond the 12-month period.

The combination of these circumstances underpinned by the completion of the Potential Transaction, along with the other matters explained in Note 1 to the financial statements, indicate the existence of material uncertainty which may cast significant doubt about the Group and Company's ability to continue as going concerns.

The financial statements do not include adjustments that would result if the Group and Company were unable to continue as going concern.

Our responsibilities and the responsibilities of the Directors with respect to going concern are described in the relevant sections of this report.

Key audit matters: our assessment of risks of material misstatement

Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We continue to perform procedures over Valuation of 4.5% Net Profit Interest ("NPI") in the Barryroe oil field. However, given that there have been no recent developments regarding the asset and the valuation methodology has not changed, we have not assessed this as one of the most significant risks in our current year audit and, therefore, it is not separately identified in our report this year.

In addition to the matter described in the *Material uncertainty related to going concern* section, in arriving at our audit opinion above, the key audit matter was as follows:

Key audit matters: our assessment of risks of material misstatement (continued)

Key audit matter	How the matter was addressed in our audit
Valuation of Midwestern Leon Petroleum Limited ("MLPL") Loan Notes (US$80.3 million) and equity interest (US$58.6 million) *(refer to pages 62 to 68 (accounting policy) and pages 75 to 77, 79 to 85 and 104 to 105 (financial disclosures))*	
The OML 18 transaction (the MLPL Loan Notes and equity interest) accounts for San Leon's most significant asset. In line with the relevant accounting standards, management have ascertained fair values for the Loan Notes US$80.3 million (2020: US$68.9 million) and equity interest US$58.6 million (2020: US$43.8 million) at 31 December 2021. There are significant estimates and judgment (forecasted cash flows and discount rate) involved in determining the fair value of both the Loan Notes and equity interest in MLPL. This is both a Group and Company key audit matter.	Our audit procedures included, but were not limited to: • Inspection of management's fair value assessment models and accounting papers highlighting the significant assumptions (forecasted cash flows and discount rate) supporting the carrying amount of the equity interest and Loan Notes investment in MLPL; • Inspection of the historical accuracy of the Group's cash flow forecast by comparing the prior period forecasted cash receipts from the MLPL Loan Notes to actual receipts in 2021 and to the date of signing the financial statements; • Inspection of documentation supporting the amounts received and due from MLPL under the Loan Notes; • Comparison of the Group's forecasted income from the MLPL Loan Note to MLPL's own cash flow forecasts to ensure they were consistent; • Assessment of the arithmetic accuracy of the calculations underpinning the valuation and accounting for the Loan Notes and equity accounted interests; • Recalculation of the fair value of the Loan Notes based on management's assumptions, including assessment of reasonableness of the methods, assumptions and data used by management. • Inspection of reporting and opinion on MLPL issued to us and discussions with the MLPL component auditor including consideration of material uncertainty related to going concern of the MLPL company in the MLPL audited consolidated financial statements for the year ended 31 December 2021; and • Assessment of the required accounting disclosures of the Loan Notes and related subsequent events in accordance with IFRS 9 *Financial Instruments* and IFRS 7 *Financial Instruments: Disclosures*. We found no material misstatements arising from our procedures, however based on evidence obtained, we note that the recoverability of the Group's investment (Loan Notes and equity investment) in MLPL is dependent on the ability of the OML 18 operator, Eroton, to make distributions which remains subject to a number of restrictions. On completion of the Potential Transaction (which is uncertain), outstanding MLPL Loan Notes would be eliminated. There is a significant uncertainty in relation to the completion of the Potential Transaction, which is interlinked with the carrying value of the Group's investment in and Loan Notes from MLPL, which we have set out in detail in the *Material uncertainty related to going concern* section of our audit report above.

Our application of materiality and an overview of the scope of our audit

Materiality for the Group and Company financial statements as a whole was set at US$840,000 (2020: US$800,000) and US$740,000 (2020: US$800,000) respectively. This has been calculated using a benchmark of Group and Company total assets (of which it represents approximately 0.5% (2020: 0.5%)), which we have determined, in our professional judgement, to be one of the principal benchmarks within the financial statements relevant to the members of the Company in assessing financial performance.

We report to the Audit and Risk Committee all corrected and uncorrected misstatements we identified through our audit in excess of US$42,000 (2020: US$40,000), in addition to other audit misstatements below that threshold that we believe warranted reporting on qualitative grounds. We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations in forming our opinion.

The accounting records of the Company and its subsidiaries are maintained in Ireland. The accounting records of the equity accounted investment in MLPL are maintained in Nigeria. The accounting records of the equity accounted investment in ELI are maintained in Malta.100% of total Group revenue, 100% of the Group's profit before taxation and 100% of Group total assets were subject to audit for group reporting purposes.

For the three significant components in the scope of our audit, the parent Company San Leon Energy plc (audited by the Group team), the equity accounted investment MLPL (audited by the component auditor) and the equity accounted investment in ELI (audited by component auditor), the Group audit team considered aggregation risk in setting component materiality having regard to the size and risk profile of the components across the Group. The Group audit team instructed the component auditors as to the significant areas to be covered including the relevant risks detailed above and the information to be reported back.

The Group audit team held a number of video and telephone conference calls with the component auditors of the MLPL and ELI components to assess the audit risk and strategy and work undertaken. We reviewed the component auditors' procedures and conclusions over the significant risks identified by us. In our discussions, the matters subject to audit and the findings reported to the Group audit team were discussed in more detail and any further work required by the Group audit team was then performed by the component auditors.

Other information

The Directors are responsible for the preparation of the other information presented in the Annual Report together with the financial statements. The other information comprises the information included in the Directors' report, Overview report, Strategic report, Corporate Governance report and other information.

The financial statements and our auditor's report thereon do not comprise part of the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

Independent Auditor's report

Continued

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work we have not identified material misstatements in the other information.

Based solely on our work on the other information undertaken during the course of the audit, we report that:

- we have not identified material misstatements in the Directors' report;
- in our opinion, the information given in the Directors' report is consistent with the financial statements; and
- in our opinion, the Directors' report has been prepared in accordance with the Companies Act 2014.

Our opinions on other matters prescribed the Companies Act 2014 are unmodified

We have obtained all the information and explanations which we consider necessary for the purpose of our audit.

In our opinion, the accounting records of the Company were sufficient to permit the financial statements to be readily and properly audited and the Company's financial statements are in agreement with the accounting records.

We have nothing to report on other matters on which we are required to report by exception

The Companies Act 2014 requires us to report to you if, in our opinion the disclosures of Directors' remuneration and transactions required by Sections 305 to 312 of the Act are not made.

We have nothing to report in this regard.

Respective responsibilities and restrictions on use

Directors' responsibilities

As explained more fully in their statement set out on page 44, the Directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Group and 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 they either intend to liquidate the Group or the Company or to cease operations, or have no realistic alternative but to do so.

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 (Ireland) 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.

A fuller description of our responsibilities is provided on IAASA's website at http://www.iaasa.ie/Publications/Auditing-standards/International-Standards-on-Auditing-for-use-in-Ire/Description-of-the-auditor-s-responsibilities-for.

The purpose of our audit work and to whom we owe our responsibilities

Our report is made solely to the Company's members, as a body, in accordance with Section 391 of the Companies Act 2014. 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 auditor's 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.

Niall Savage
for and on behalf of

KPMG
Chartered Accountants, Statutory Audit Firm
1 Stokes Place
St. Stephen's Green
Dublin 2

8 July 2022

Consolidated income statement

for the year ended 31 December 2021

	Notes	2021 US$'000	2020 US$'000
Continuing operations			
Revenue from contracts with customers	2	**5,747**	–
Gross profit		**5,747**	–
Share of profit/(loss) of equity accounted investments	13	**14,532**	(1,139)
Administrative expenses		**(12,867)**	(14,918)
Profit/(loss) on disposal of subsidiaries	4	**16,615**	(1,044)
Impairment/write off of exploration and evaluation assets	12	**(206)**	(196)
Other income	3	**4,560**	–
Profit/(loss) from operating activities		**28,381**	(17,297)
Finance expense	6	**(129)**	(131)
Finance income	7	**14,599**	17,442
Expected credit losses	8	**1,192**	(13,692)
Fair value movements in financial assets	15	**(2,551)**	4,073
Profit/(loss) before income tax		**41,492**	(9,605)
Income tax expense	10	**(775)**	(2,248)
Profit/(loss) for the financial year		**40,717**	(11,853)
Profit/(loss) per share (cent) – total			
Basic profit/(loss) per share	11	**9.05**	(2.63)
Diluted profit/(loss) per share	11	**8.94**	(2.63)

The accompanying notes on pages 58 to 107 form an integral part of these financial statements.

Consolidated statement of other comprehensive income

for the year ended 31 December 2021

	Notes	2021 US$'000	2020 US$'000
Profit/(loss) for the year		**40,717**	(11,853)
Items that may be reclassified subsequently to profit or loss			
Currency translation differences – subsidiaries	*24*	**56**	83
Recycling of currency translation reserve on disposal of subsidiaries	*24*	**(16,615)**	1,044
Fair value movements in financial assets	*15*	**–**	(194)
Total other comprehensive income		**(16,559)**	933
Total comprehensive profit/(loss) for the year		**24,158**	(10,920)

The accompanying notes on pages 58 to 107 form an integral part of these financial statements.

Consolidated statement of changes in equity

for the year ended 31 December 2021

2020	Share capital reserve US$'000	Share premium reserve US$'000	Other un-denom-inated reserve US$'000	Special reserve US$'000	Currency translation reserve US$'000	Share based payment reserve US$'000	Fair value reserve US$'000	Retained earnings US$'000	Attributable to equity holders in Group US$'000
Balance as at 1 January 2020	5,172	21,077	623	5,024	24,621	14,292	(2,505)	127,544	195,848
Total comprehensive income for year									
Loss for the year	–	–	–	–	–	–	–	(11,853)	(11,853)
Other comprehensive income									
Foreign currency translation differences – subsidiaries	–	–	–	–	83	–	–	–	83
Recycling of currency translation reserve on disposal of subsidiaries	–	–	–	–	1,044	–	–	–	1,044
Fair value movements in financial assets	–	–	–	–	–	–	(194)	–	(194)
Total comprehensive income for year	–	–	–	–	1,127	–	(194)	(11,853)	(10,920)
Transactions with owners recognised directly in equity									
Contributions by and distributions to owners									
Dividend payment (Note 23)	–	–	–	–	–	–	–	(33,251)	(33,251)
Share buybacks (Note 22)	(15)	–	15	–	–	–	–	(507)	(507)
Share-based payment	–	–	–	–	–	417	–	–	417
Effect of share options modified	–	–	–	–	–	473	–	–	473
Effect of options expired	–	–	–	–	–	(43)	–	43	–
Total transactions with owners	(15)	–	15	–	–	847	–	(33,715)	(32,868)
Balance at 31 December 2020	5,157	21,077	638	5,024	25,748	15,139	(2,699)	81,976	152,060

The accompanying notes on pages 58 to 107 form an integral part of these financial statements.

Consolidated statement of changes in equity continued

for the year ended 31 December 2021

2021	Share capital reserve US$'000	Share premium reserve US$'000	Other un-denom-inated reserve US$'000	Special reserve US$'000	Currency translation reserve US$'000	Share based payment reserve US$'000	Fair value reserve US$'000	Retained earnings US$'000	Attributable to equity holders in Group US$'000
Balance as at 1 January 2021	5,157	21,077	638	5,024	25,748	15,139	(2,699)	81,976	152,060
Total comprehensive income for year									
Profit for the year	–	–	–	–	–	–	–	40,717	40,717
Other comprehensive income									
Foreign currency translation differences – subsidiaries	–	–	–	–	56	–	–	–	56
Recycling of currency translation reserve on disposal of subsidiaries	–	–	–	–	(16,615)	–	–	–	(16,615)
Fair value movements in financial assets	–	–	–	–	–	–	–	–	–
Total comprehensive income for year	–	–	–	–	(16,559)	–	–	40,717	24,158
Transactions with owners recognised directly in equity									
Contributions by and distributions to owners									
Dividend payment (Note 23)	–	–	–	–	–	–	–	–	–
Share buybacks (Note 22)	–	–	–	–	–	–	–	–	–
Share-based payment	–	–	–	–	–	–	–	–	–
Effect of share options modified	–	–	–	–	–	–	–	–	–
Effect of options expired	–	–	–	–	–	(2,230)	–	2,230	–
Total transactions with owners	–	–	–	–	–	(2,230)	–	2,230	–
Balance at 31 December 2021	**5,157**	**21,077**	**638**	**5,024**	**9,189**	**12,909**	**(2,699)**	**124,923**	**176,218**

The accompanying notes on pages 58 to 107 form an integral part of these financial statements.

Consolidated statement of financial position

as at 31 December 2021

	Notes	2021 US$'000	2020 US$'000
Assets			
Non-current assets			
Intangible assets	*12*	**–**	–
Equity accounted investments	*13*	**58,634**	44,102
Property, plant and equipment	*14*	**2,510**	3,294
Financial assets	*15*	**10,657**	17,846
		71,801	65,242
Current assets			
Inventory	*16*	**168**	183
Trade and other receivables	*17*	**13,642**	1,878
Financial assets	*15*	**91,159**	72,889
Cash and cash equivalents	*18*	**7,592**	18,510
		112,561	93,460
Total assets		**184,362**	158,702
Equity and liabilities			
Equity			
Called up share capital	*22*	**5,157**	5,157
Share premium account	*22*	**21,077**	21,077
Other undenominated reserve		**638**	638
Special reserve	*24*	**5,024**	5,024
Share-based payments reserve	*24/25*	**12,909**	15,139
Currency translation reserve	*24*	**9,189**	25,748
Fair value reserve	*24*	**(2,699)**	(2,699)
Retained earnings		**124,923**	81,976
Total equity attributable to equity shareholders		**176,218**	152,060
Non-current liabilities			
Lease liability	*28*	**2,054**	2,428
Derivative	*20*	**–**	9
Deferred tax liabilities	*27*	**1,282**	518
		3,336	2,955
Current liabilities			
Trade and other payables	*19*	**4,752**	3,631
Provisions	*21*	**56**	56
		4,808	3,687
Total liabilities		**8,144**	6,642
Total equity and liabilities		**184,362**	158,702

The accompanying notes on pages 58 to 107 form an integral part of these financial statements.

Oisín Fanning, Director
8 July 2022

Julian Tedder, Director

Consolidated statement of cash flows

for the year ended 31 December 2021

	Notes	2021 US$'000	2020 US$'000
Cash flows from operating activities			
Profit/(loss) for the year – continuing operations		**40,717**	(11,853)
Adjustments for:			
Depreciation	14	**1,028**	1,028
Finance expense	6	**129**	131
Finance income	7	**(14,599)**	(17,442)
Share-based payments charge		**–**	890
Foreign exchange		**(9)**	113
Income tax expense	10	**775**	2,248
Impairment of exploration and evaluation assets – continuing operations	12	**206**	196
Expected credit losses	8	**(1,192)**	13,692
Profit/(loss) on disposal of subsidiaries	4	**(16,615)**	1,044
Fair value movements in financial assets	15	**2,551**	(4,073)
Decrease/(increase) in inventory	16	**15**	(3)
Increase in trade and other receivables		**(11,765)**	(897)
Increase/(decrease) in trade and other payables		**1,068**	(1,778)
Share of (profit)/loss of equity-accounted investments	13	**(14,532)**	1,139
Tax paid		**35**	–
Net cash outflow from operating activities		**(12,188)**	(15,565)
Cash flows from investing activities			
Expenditure on exploration and evaluation assets	12	**(206)**	(196)
Lease – prepaid rental	28	**(244)**	–
Interest and investment income received	7	**–**	47
Acquisition of ELI Equity Interest	13/15	**–**	(443)
ELI Loan Notes issued	15	**–**	(14,557)
OML 18 Loan Notes principal payments received	15	**–**	35,285
OML 18 Loan Notes interest payments received	15	**2,150**	11,215
Net cash inflow from investing activities		**1,700**	31,351
Cash flows from financing activities			
Dividends paid	23	**–**	(33,251)
Share buybacks		**–**	(507)
Repayment of lease liability – principal	28	**(227)**	(211)
Interest paid	6	**(129)**	(131)
Net cash outflow from financing activities		**(356)**	(34,100)
Net decrease in cash and cash equivalents		**(10,844)**	(18,314)
Effect of foreign exchange fluctuation on cash and cash equivalents		**(74)**	127
Cash and cash equivalents at start of year	18	**18,510**	36,697
Cash and cash equivalents at end of year	18	**7,592**	18,510

The accompanying notes on pages 58 to 107 form an integral part of these financial statements.

Notes to the financial statements

for the year ended 31 December 2021

1. Accounting policies

San Leon Energy plc ("the Company") is a company incorporated and domiciled in the Republic of Ireland. The Company's ordinary shares are admitted to trading on the AIM Market of the London Stock Exchange. The Group financial statements consolidate those of the Company and its subsidiaries (together referred to as the "Group"). The registered office address is 2 Shelbourne Buildings, Crampton Avenue, Shelbourne Road, Ballsbridge, Dublin 4.

Statement of compliance

As required by AIM rules and permitted by Company Law, the Group financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the EU. The IFRS adopted by the EU as applied by the Group in the preparation of these financial statements are those that were effective for accounting periods commencing on or before 1 January 2021 or were early adopted as indicated below.

New standards required by EU companies for the year ended 31 December 2021

The following new standards and amendments were adopted by the Group for the first time in the current financial reporting period.

New standards and interpretations effective that were adopted

Standard	IASB effective date	EU effective date
Covid-19 Related Rent Concessions (Amendment to IFRS 16)	1 June 2020	1 June 2020
Interest Rate Benchmark Reform – Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16)	1 January 2021	1 January 2021

The standards listed above, are effective from 1 January 2021 but they do not have a material effect on the Group's financial statements.

New standards and amendments issued by the IASB but not yet effective

There are a number of new standards, amendments to standards and interpretations that are not yet effective and have not been applied in preparing these consolidated financial statements. These new standards, amendments to standards and interpretations are either not expected to have a material impact on the Group financial statements or are still under assessment by the Group.

The principal new standards, amendments to standards and interpretations are as follows:

Standard	IASB effective date	EU effective date
Covid-19-Related Rent Concessions beyond 30 June 2021 (Amendment to IFRS 16)	1 April 2021	1 April 2021
Onerous Contracts – Cost of Fulfilling a Contract (Amendments to IAS 37)	1 January 2022	1 January 2022
Annual Improvements to IFRS Standards 2018 – 2020	1 January 2022	1 January 2022
Property, Plant and Equipment: Proceeds before Intended Use (Amendments to IAS 16)	1 January 2022	1 January 2022
Reference to the Conceptual Framework (Amendments to IFRS 3)	1 January 2022	1 January 2022
Classification of Liabilities as Current or Non-current (Amendments to IAS 1)	1 January 2023	1 January 2023
IFRS 17 Insurance Contracts and amendments to IFRS 17 Insurance Contracts	1 January 2023	1 January 2023
Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2)	1 January 2023	1 January 2023
Definition of Accounting Estimate (Amendments to IAS 8)	1 January 2023	1 January 2023
Deferred Tax Related to Assets and Liabilities Arising from a Single Transaction – Amendments to IAS 12 Income Taxes	1 January 2023	1 January 2023
Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28)	Effective date deferred indefinitely	Effective date deferred indefinitely

1. Accounting policies continued

New standards that came into effect on 1 January 2022 will be applied in the year ending 31 December 2021 first reporting to include these will be for the period ending 30 June 2022. The Directors do not believe that any of these standards will have a significant impact on Group reporting.

Basis of preparation

The Group financial statements are prepared on the historical cost basis, except for financial assets (net profit interests, quoted shares and unquoted shares), which are carried at fair value, and equity settled share option awards and warrants which are measured at grant date fair value.

Going concern

The Directors have prepared a detailed cash flow forecast for the Group for the period from 1 June 2022 to 31 December 2023.

The principal assumptions underlying the cash flow forecast and the availability of finance to the Group are as follows:

- The proposed reorganisation to consolidate Midwestern Oil and Gas Company Limited's ("Midwestern") shareholdings in: i) the Company; and ii) Midwestern Leon Petroleum Limited ("MLPL") into a single shareholding in the Company (the "Potential Transaction") completes in the second half of 2022. The Potential Transaction also comprises, inter alia, a proposed consolidation of Midwestern's indirect debt and equity interests in Energy Link Infrastructure (Malta) Limited ("ELI") with those of the Company, as well as further new debt and new and existing equity investments to be made by San Leon in ELI ("Further ELI Investments");
- Eroton Exploration and Production Company Limited ("Eroton") acquires an additional 18% interest in OML 18 from two of the other partners in OML 18, thereby taking Eroton's interest in OML 18 to 45%. This is subject, inter alia, to: i) agreeing documentation; ii) finalising bank financing; and iii) receiving the relevant regulatory consents in Nigeria;
- A loan of US$50.0 million is secured to finance the Potential Transaction;
- Elimination of the MLPL loan notes on completion of the Potential Transaction;
- Under an Asset Management Agreement with Eroton, San Leon receives US$0.5 million per month for technical and financial advisory services following completion of the Potential Transaction;
- Repayments from ELI of loan notes of US$37.6 million during 2022 and 2023;
- Repayment from Eroton of a debt from the provision of services under a technical services contract of US$3.0 million during 2022; and
- A further loan of US$2.5 million is given to Decklar Petroleum Limited in relation to its Oza investment as per the option agreement.

Due to the Potential Transaction not having completed at the date of the Annual Report there is an inherent material uncertainty that completion will not occur as anticipated.

The Group has modelled various other scenarios assuming the Potential Transaction does not complete and given the Group's well understood cost base, the principal uncertainty if the Potential Transaction does not complete relates to the quantum and timing of receipt of interest and capital repayments on the Loan Notes with MLPL, which would remain in place, and the loan Notes with ELI.

It was originally envisaged that the MLPL Loan Note payments due to the Group would be sourced by MLPL from the receipt of dividends through its indirect interest in Eroton via Martwestern. These dividends have not been received to date and consequently MLPL has entered into loan arrangements in order to be able to make Loan Note payments to the Company. In the absence of the dividend payments, MLPL will be reliant on further advances under the loan arrangement and in turn being able to make Loan Note payments to the Company. The Company has no obligation arising from the loan arrangements entered into by MLPL.

The loan repayments due from ELI were due to start in 2021 but have been delayed due to operational readiness of the FSO and ACOES project being delayed. The Directors have a reasonable expectation that ELI will be revenue generating imminently with the commencement of barging operations, and while loan repayments have been delayed, they should commence in the second half of 2022.

Due to the uncertainty on timing of future cash flows the MLPL and ELI loan notes have both been credit impaired.

1. Accounting policies continued

In the ultimate downside scenario where no repayments are received from MLPL and ELI, the US$50.0 million loan secured by the Company to fund the Potential Transaction can be drawn to facilitate completion of the further ELI Investments, with the remaining balance being used for general corporate purposes. In this scenario the working capital requirements of the Group can be met for the 12-month period from the date of approval of the financial statements, although a reduction to administrative costs is required in 2023, which the Directors believe is achievable and within their control.

However, while the working capital requirements of the Group can be met for the 12-month period, the Directors believe that the continued viability of the Group and Company into the future is dependent on the completion of the Proposed Transaction. As such, the completion of the Proposed Transaction creates significant uncertainty upon the Group and Company's ability to continue as a going concern beyond the 12-month period. The Directors' have concluded that this represents a material uncertainty which may cast significant doubt upon the Group and Company's ability to continue as a going concern and that, therefore, the Group and Company may be unable to continue realising its assets and discharging its liabilities in the normal course of business.

Having taken all the above factors into account, the directors continue to believe it is appropriate to prepare these financial statements on a going concern basis, noting the material uncertainty that exists on the completion of the Potential Transaction and its impact on the Company and Group's ability to continue as a going concern. The financial statements do not include any adjustments that would be necessary if the group were unable to continue as a going concern.

Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). These consolidated financial statements are presented in US Dollars (US$), which is the Group's presentational currency, rounded to the nearest thousand.

Use of estimates and judgements

The preparation of financial statements, in conformity with EU IFRS, requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected. In particular, significant areas of estimation uncertainty and critical judgements used in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements include:

Judgements

- Going concern (Note 1)
- Classification of finance income (Note 7)
- Impairment of investment in subsidiary (Note B)
- Recoverability of equity accounted investments (Note 13)
- Recoverability of financial assets (Note 15)

Estimates

- Measurement of equity accounted investments (Note 13)
- Measurement of financial assets (Note 15)
- Measurement of share-based payments (Note 25)
- Recognition of deferred tax asset for tax losses (Note 27)

Basis of consolidation

The financial information incorporates the financial information of the Group. Control is defined as when the Group is exposed to or has the rights to variable returns from its investment with the entity and has the ability to affect these returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date control commences until the date that control ceases. Where necessary, adjustments are made to the financial information of subsidiaries to bring their accounting policies into line with those used by other members of the Group. Intra-group balances and any unrealised gains and losses or income or expenses arising from intragroup transactions are eliminated in preparing the Group financial statements.

1. Accounting policies continued

Business combinations and goodwill

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group. Control is defined as when the Group have the rights to variable returns from its investment with the entity and have the ability to affect these returns through its power over the entity. In assessing control, the Group takes into consideration potential voting rights that currently are substantive.

Acquisitions

The Group measures goodwill at the acquisition date as:

- the fair value of the consideration transferred; plus
- the recognised amount of any non-controlling interests in the acquiree; plus, if the business combination is achieved in stages, the fair value of the existing equity interest in the acquiree; less
- the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

When the excess is negative, a bargain purchase gain is recognised immediately in profit or loss.

Costs related to the acquisition, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

Any contingent consideration payable is recognised at fair value at the acquisition date. If the contingent consideration is classified as equity, it is not re-measured and settlement is accounted for within equity. Otherwise, subsequent changes to the fair value of the contingent consideration are recognised in profit or loss.

Intangible assets – exploration and evaluation assets

Expenditure incurred prior to obtaining the legal rights to explore an area is recognised in profit or loss as incurred. All other expenditure relating to licence acquisition, exploration, evaluation and appraisal of oil and gas interests, including an appropriate share of directly attributable overheads, is capitalised on a licence by licence basis.

Exploration and evaluation assets are carried at cost until the exploration phase is complete or commercial reserves have been discovered. The Group regularly review the carrying amount of exploration and evaluation assets for indicators of impairment and capitalised costs are written off where the carrying amount of assets may not be recoverable. Where commercial reserves have been established and development is approved by the Board, the relevant expenditure is transferred to oil and gas properties following assessment of impairment.

Impairment of non-financial assets

The carrying amounts of the Group's assets are reviewed at each reporting date and, if there is any indication that an asset may be impaired, its recoverable amount is estimated. The recoverable amount is the higher of its fair value less costs to sell and its value in use.

Estimates of impairment are limited to an assessment by the Directors of any events or changes in circumstance that would indicate that the carrying amount of the asset may not be recoverable.

Any impairment loss arising from the review is recognised in profit or loss to the extent the carrying amount of the asset exceeds its recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation. Depreciation is provided at rates calculated to write off the cost less residual value of each asset over its expected useful life. The residual value is the estimated amount that would currently be obtained from disposal of the asset if the asset were already of the age and in the condition expected at the end of its useful life. The annual rate of depreciation for each class of depreciable asset is:

Office equipment	25% Straight line
Motor vehicles	20% Reducing balance
Plant and equipment	20% – 33% Straight line
Leased assets	Shorter of the term of lease or useful life of the asset as defined under IFRS 16

1. Accounting policies continued

Inventories
Inventories are valued at the lower of cost and net realisable value.

Joint ventures
The Group has also entered into a joint venture arrangement which is operated through a joint venture. The Group accounts for its interest in this entity on an equity basis, with Group share of profit or loss after tax recognised in the Income Statement and its share of Other Comprehensive Income ("OCI") of the joint venture recognised in OCI.

Financial assets and financial liabilities

i. Recognition and initial measurement
Financial assets are classified at initial recognition and subsequently measured at amortised cost, Fair Value through Other Comprehensive Income ("FVOCI") or Fair Value Through Profit or Loss ("FVTPL"). The classification of financial assets is determined by the contractual cash flows and where applicable the business model for managing the financial assets.

A financial asset or financial liability is initially measured at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue.

ii. Classification and subsequent measurement
Financial assets
On initial recognition, a financial asset is classified as measured at: amortised cost; FVOCI – debt investment; FVOCI – equity investment; or FVTPL. Financial assets are not reclassified subsequent to their initial recognition unless the Group changes its business model for managing financial assets.

A financial asset is measured at amortised cost if the objective of the business model is to hold the financial asset in order to collect contractual cash flows and the contractual terms give rise to cash flows that are solely payments of principal and interest. Subsequently the financial asset is measured using the effective interest method less any impairment. The amortised cost is reduced by impairment losses in accordance with Group policy set out below. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss.

The business model in which a financial asset is held is assessed at an individual asset level for assets that are individually material, and otherwise at a portfolio level. Financial assets that are held as part of a long-term strategic investment are considered within a business model to collect contractual cash flows.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Group considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition.

On initial recognition of an equity investment that is not held for trading, the Group may irrevocably elect to present subsequent changes in the investment's fair value in OCI (FVOCI – equity investment). This election is made on an investment-by-investment basis. These assets are subsequently measured at fair value. Dividends are recognised as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses are recognised in OCI and are never reclassified to profit or loss.

All financial assets not classified as measured at amortised cost or FVOCI as described above are measured at FVTPL. This includes all derivative financial assets. These assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognised in profit or loss.

On initial recognition, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

1. Accounting policies continued

Financial liabilities
Financial liabilities are classified as measured at amortised cost or FVTPL. A financial liability is classified as at FVTPL if it is classified as held-for-trading, it is a derivative or it is designated as such on initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognised in profit or loss. Other financial liabilities are subsequently measured at amortised cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognised in profit or loss. Any gain or loss on derecognition is also recognised in profit or loss.

iii. Impairment (including receivables)
The Group recognises loss allowances for expected credit losses ("ECL's") on financial assets measured at amortised cost.

A provision for 12-month ECL is recognised in respect of low risk assets. A provision for the lifetime ECL is recognised in respect of higher risk assets that are not credit impaired. If an asset is credit impaired, the carrying amount of the asset is reduced by its lifetime ECL.

The 12-month ECL represents the weighted average of credit losses that result from default events on a financial instrument that are possible within the 12 months after the reporting date. This requires a number of outcomes to be considered, a probability assigned to each, and a resulting credit loss applied to each. ECLs are discounted at the effective interest rate of the financial asset.

12-month ECL is determined based on forward looking analysis where a range of outcomes have been considered taking into account the size and timing of the contractual cash flows, the risk of late payment and the risk of default leading to less than full recovery of the amounts due. Lifetime ECL is calculated the same way, but over the relevant period.

At each reporting date, the Group assesses whether financial assets carried at amortised cost are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. The Group considers a financial asset to be in default and presumed credit impaired when contractual payments are outstanding 90 days after their due date, unless there is reasonable information that amounts will be recovered; or when the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security including guarantees (if any is held).

The Group has determined that MLPL is likely to meet its credit obligations as evidenced by the preparation of a Competent Persons Report in relation to San Leon's interest in OML 18, however are uncertain of the timing of when these obligations will be met. The Group has therefore credit impaired the asset.

The Group has determined that ELI is likely to meet its credit obligations as evidenced by recent management information in relation to San Leon's interest in ELI.

Write-off
The gross carrying amount of a financial asset is written off when the Group has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof. The Group expects no significant recovery from the amount written off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Group's procedures for recovery of amounts due.

iv. Derecognition
The Group derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire.

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

On derecognition of a financial asset or financial liability, the difference between the carrying amount removed or extinguished and the consideration received or paid is recognised in profit or loss.

1. Accounting policies continued

Decommissioning provision

A provision is made for decommissioning of oil and gas wells. The cost of decommissioning is determined through discounting the amounts expected to be payable to their present value at the date the provision is recognised and reassessed at each reporting date. This amount is regarded as part of the total investment to gain access to economic benefits and consequently capitalised as part of the cost of the asset and the liability is recognised in provisions. Such cost is depleted over the life of the asset on the basis of proven and probable reserves and charged to the Income Statement. The unwinding of the discount is reflected as a finance cost in the Income Statement over the life of the field or well.

Taxation

Income tax expense comprises current and deferred tax. Income tax expense is recognised in the Consolidated Income Statement except to the extent that it relates to items recognised directly in Other Comprehensive Income or equity, in which case it is recognised in Other Comprehensive Income or equity.

i. Current tax

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

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

ii. Deferred tax

Deferred tax is recognised using the liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of goodwill, the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that they are controlled and probably will not reverse in the foreseeable future. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

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

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

Foreign currencies

Transactions in foreign currencies are initially translated to the respective functional currencies of Group entities at the exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated to the functional currency at the exchange rates ruling at the reporting date with gains or losses recognised in profit or loss. Non-monetary items are translated using the exchange rates ruling as at the date of the initial transaction.

Foreign currency differences are generally recognised in profit or loss and presented within finance costs. However, foreign currency differences arising from the translation of the following items are recognised in OCI:

- an investment in equity securities designated as at FVOCI (except on impairment, in which case foreign currency differences that have been recognised in OCI are reclassified to profit or loss);
- a financial liability designated as a hedge of the net investment in a foreign operation to the extent that the hedge is effective; and
- qualifying cash flow hedges to the extent that the hedges are effective.

1. Accounting policies continued

Foreign operations

The assets and liabilities of foreign operations are translated into US Dollars at the exchange rate at the reporting date and the income and expenses of foreign operations are translated at the actual exchange rates at the date of the transaction or at average exchange rates for the year where this approximates to the actual rate. Exchange differences arising on translation are recognised in Other Comprehensive Income and presented in the foreign currency translation reserve in equity. Details of exchange rates used are set out in Note 30.

Revenue recognition

For the year ended 31 December 2021 the Group used the five-step model as prescribed under IFRS 15 on the Group's revenue transactions. This included the identification of the contract, identification of the performance obligations under same, determination of the transaction price, allocation of the transaction price to performance obligations and recognition of revenue. The point of recognition arises when the Group satisfies a performance obligation by transferring control of promised drilling services and royalty income to the customer, which could occur over time.

Finance income and expenses

Interest income is accrued on a time basis by reference to the principal on deposit and the effective interest rate applicable.

The 'effective interest rate' is the rate that at initial recognition exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to:

- the gross carrying amount of the financial asset; or
- the amortised cost of the financial liability.

In calculating interest income and expense, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit-impaired) or to the amortised cost of the liability. However, for financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the amortised cost of the financial asset net of impairment provision. If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis.

Finance expenses comprise interest or finance costs on borrowings and unwinding of any discount on provisions using the effective interest rate.

Share capital

Incremental costs directly attributable to the issue of ordinary shares are recognised as a deduction from equity.

Share-based payments

The Group has applied the requirements of IFRS 2 'share-based payments'. The Group issues share options as an incentive to certain key management and staff (including Directors), which are classified as equity settled share-based payment awards. The grant date fair value of share options granted to Directors and employees under the Group's share option scheme is recognised as an expense over the vesting period with a corresponding credit to the share-based payments reserve. The fair value is measured at grant date and spread over the period during which the awards vest.

The options issued by the Group are subject to both market-based and non-market based vesting conditions. Market conditions are included in the calculation of fair value at the date of the grant. Non-market vesting conditions are not taken into account when estimating the fair value of awards as at grant date; such conditions are taken into account through adjusting the number of the equity instruments that are expected to vest.

The proceeds received will be credited to share capital (nominal value) and share premium when options are converted into ordinary shares.

Where the terms of an equity-settled transaction are modified, an additional expense is recognised for any modification that increases the total fair value of the share-based payment transaction, or is otherwise beneficial to the employee as measured at the date of modification.

1. Accounting policies continued

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

Dividends

The Group has elected to classify cash flows from dividends paid as financing activities.

Earnings per share

The Group present basic and diluted earnings per share ("EPS") data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to equity shareholders of the Company by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, which comprise convertible notes, share options granted to employees and warrants.

Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and in hand on demand.

Leases

As a lessee

The Group recognises right-of-use assets representing its right to use the underlying assets and lease liabilities representing its obligation to make lease payments at the lease commencement date. The right-of-use assets are initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or to restore the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term, unless the lease transfers ownership of the underlying asset to the Group by the end of the lease term or the cost of the right-of-use asset reflects that the Group will exercise a purchase option. In that case the right-of-use asset will be depreciated over the useful life of the underlying asset, which is determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. Generally, the Group uses its incremental borrowing rate as the discount rate.

The Group determines its incremental borrowing rate by obtaining interest rates from various external financing sources and makes certain adjustments to reflect the terms of the lease and type of the asset leased.

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

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the Group is reasonably certain to exercise, lease payments in an optional renewal period if the Group is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Group is reasonably certain not to terminate early.

1. Accounting policies continued

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, if the Group changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Group presents right-of-use assets that do not meet the definition of investment property in 'property, plant and equipment' and lease liabilities in 'loans and borrowings' in the Statement of Financial Position.

Short-term leases and leases of low-value assets

The Group has elected not to recognise right-of-use assets and lease liabilities for leases of low-value assets and short-term leases, including IT equipment. The Group recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

Segmental reporting

A segment is a distinguishable component of the Group that is engaged in business activities from which it may earn revenues and incur expenses which is subject to risks and rewards that are different from those of other segments and for which discrete financial information is available.

All operating segments and results are regularly reviewed by the Board of Directors to make decisions about resources to be allocated to each segment and to assess its performance.

Full details of the Group's operating segments all of which are involved in oil and gas exploration and production are set out in Note 2 to the financial statements.

Fair value movement

The Group has an established process with respect to the measurement of fair values. The finance team regularly reviews significant unobservable inputs and valuation adjustments. If third party information, such as broker quotes or pricing services, is used to measure fair values, then the valuation team assesses the evidence obtained from the third parties to support the conclusion that such valuations meet the requirements of IFRS, including the level in the fair value hierarchy in which such valuations should be classified.

Significant valuation issues are reported to the Board.

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

For further detail on assumptions made in measuring Level 3 fair values see the following notes:

- Note 15 Financial Assets
- Note 20 Derivative

1. Accounting policies continued

Assets and liabilities measured at fair value

In accordance with IFRS 13, the Group discloses its assets and liabilities held at fair value after initial recognition in the following categories: FVOCI – equity instrument and FVTPL.

With the exception of shares held in quoted entities, which are classified as Level 1 items under the fair value hierarchy, all assets and liabilities held at fair value are measured on the basis of inputs classified as Level 3 under the fair value hierarchy on the basis that the inputs underpinning the valuations are not based on observable market data as defined in IFRS 13.

Where derivatives are traded either on exchanges or liquid over-the-counter markets, the Group uses the closing price at the reporting date. Normally, the derivatives entered into by the Group are not traded in active markets. The fair values of these contracts are estimated using a valuation technique that maximises the use of observable market inputs, e.g. market exchange and interest rates. All derivatives entered into by the Group are included in Level 3 and consist of share warrants issued.

2. Revenue and segmental information

Operating segment information is presented on the basis of the geographical areas as detailed below, which represent the financial basis by which the Group manages its operations. The Board of Directors, which has been recognised as the Chief Operating Decision Maker ("CODM"), regularly receive verbal or written reports at board meetings for each of the segments based on the below criteria which management consider to be appropriate in evaluating segment performance relative to other entities that operate in the industry.

Revenue and Segmental Information

2021	Poland US$'000	Morocco US$'000	Albania US$'000	Nigeria US$'000	Ireland US$'000	Netherlands US$'000	Spain US$'000	Unallocated# US$'000	**Total US$'000**
Total revenue	–	–	–	3,000	–	2,747	–	–	**5,747**
Impairment of exploration and evaluation assets	–	–	(206)	–	–	–	–	–	**(206)**
Segment profit/(loss) before income tax	16,439	–	(206)	33,314	(2,552)	6,775	–	(12,278)	**41,492**
Property, plant and equipment	4	–	–	–	2,506	–	–	–	**2,510**
Equity accounted investments	–	–	–	58,634	–	–	–	–	**58,634**
Segment non-current assets	4	–	–	65,000	6,797	–	–	–	**71,801**
Segment liabilities	(65)	(18)	(804)	(4)	(3,680)	–	(745)	(2,828)	**(8,144)**

 # Unallocated expenditure and liabilities include amounts of a corporate nature and not specifically attributable to a reportable segment.

Revenue relates to the provision of drilling services in Nigeria. It also relates to the settlement of the TAQA claim, please see Other income (Note 3).

2. Revenue and segmental information continued

2020	Poland US$'000	Morocco US$'000	Albania US$'000	Nigeria US$'000	Ireland US$'000	Netherlands US$'000	Spain US$'000	Unallocated# US$'000	Total US$'000
Total revenue	–	–	–	–	–	–	–	–	–
Impairment of exploration and evaluation assets	–	–	(196)	–	–	–	–	–	(196)
Segment (loss)/profit before income tax	(2,093)	–	(196)	3,259	4,073	–	(59)	(14,589)	(9,605)
Property, plant and equipment	11	–	–	575	2,708	–	–	–	3,294
Equity accounted investments	–	–	–	44,102	–	–	–	–	44,102
Segment non-current assets	11	–	–	55,729	9,502	–	–	–	65,242
Segment liabilities	(83)	(18)	(804)	(4)	(3,279)	–	(748)	(1,706)	(6,642)

 # Unallocated expenditure and liabilities include amounts of a corporate nature and not specifically attributable to a reportable segment.

3. Other income

	2021 US$'000	2020 US$'000
TAQA settlement (i)	**4,027**	–
Other (ii)	**533**	–
	4,560	–

(i) TAQA settlement

In December 2021, the Group successfully concluded their ongoing legal proceedings with TAQA Offshore B.V. ("TAQA") in relation to its legacy interests in two royalties on Block Q13A, which is located offshore the Netherlands (the "Amstel Oil Field"), including an Overriding Royalty Agreement entered into with Encore Oil as part of a sale and purchase agreement entered into in 2007 (the "Royalty Agreements").

TAQA had subsequently purchased the interest from Encore Oil. Production from the Amstel Field started in 2014 but no royalties had been received. The Royalty Agreements became the subject of separate legal proceedings in the Netherlands and the UK.

The royalties will continue to be payable in accordance with the terms and conditions of the Royalty Agreements. The Royalty Agreements represent legacy interests and any potential net future benefit to the Group going forward from the Amstel Oil Field on a monthly basis is not expected to be particularly material to San Leon.

The total TAQA settlement amounted to approximately US$6.8 million of which approximately US$2.7 million has been recognised as revenue in 2021 as this amount had not been previously provided for by the Company.

(ii) Other

Relates to the disposal of property, plant and equipment that had been fully impaired or depreciated to US$Nil in prior periods.

4. Profit/(loss) on disposal of subsidiaries

	2021 US$'000	2020 US$'000
Other, recycling from equity to income statement (i)	**16,615**	(1,044)
	16,615	(1,044)

(i) Other

In 2021 the Group liquidated certain foreign operations that held non-core assets. The Group's investment in the assets held by the subsidiaries has been fully impaired in prior periods. The liquidation of the foreign operations has resulted in the realisation of cumulative foreign currency gains of US$16.6 million (2020: losses of US$1.0 million), that had previously been recognised in equity. The realisation of the cumulative foreign currency gains and losses do not impact the consolidated assets or liabilities.

5. Statutory information

	2021 US$'000	2020 US$'000
The profit/(loss) for the financial year is stated after charging:		
Depreciation of property, plant, machinery and equipment	**1,028**	1,028
Gain/(loss) on foreign currencies	**9**	(113)
Impairment of exploration and evaluation assets	**206**	196
Share-based payment charge	**–**	890

During the year, the Group (including its overseas subsidiaries) obtained the following services from KPMG, the Group Auditor:

Auditor's remuneration

	2021 US$'000	2020 US$'000
Fees paid to lead audit firm:		
Audit of the Group financial statements	**260**	238
Audit of the subsidiary financial statements	**69**	69
Total	**329**	307

During the year, the Group (including its equity accounted investment) obtained the following audit services, excluding the Group Auditor, KPMG:

	2021 US$'000	2020 US$'000
Fees paid to other firms:		
Audit of equity accounted investments	**48**	48
Total	**48**	48

6. Finance expense

	2021 US$'000	2020 US$'000
Interest on obligations for leases	**129**	131

7. Finance income

	2021 US$'000	2020 US$'000
Total finance income on Loan Notes (Note 15)	**14,590**	17,276
Movement in fair value of derivatives (Note 20)	**9**	119
Deposit interest received	**–**	47
	14,599	17,442

All interest income is in respect of assets measured at amortised cost.

8. Expected credit losses

	2021 US$'000	2020 US$'000
OML 18 Loan Notes – impact of modification (Note 15)	**–**	(5,857)
OML 18 Loan Notes – net remeasurement of loss allowance (Note 15)	**1,447**	(7,450)
ELI Loan Notes – initial recognition (Note 15)	**–**	(385)
ELI Loan Notes – net remeasurement of loss allowance (Note 15)	**(255)**	–
	1,192	(13,692)

9. Personnel expenses

Number of employees

The average monthly number of employees (including the Directors) during the year was:

	2021 Number	2020 Number
Directors	**6**	8
Administration	**8**	10
Technical	**1**	1
Seismic crew	**1**	1
	16	20

Employment costs (including Directors)

	2021 US$'000	2020 US$'000
Wages and salaries (excluding Directors)	**1,659**	1,437
Directors' salaries	**2,413**	2,678
Directors' bonuses	**490**	1,172
Social welfare costs	**381**	428
Directors' fees and consultancy costs	**500**	607
Share-based payment charge for options issued to Directors	**–**	418
Employees' pension	**197**	71
Benefits (including Directors)	**99**	59
Directors' pension	**331**	99
	6,070	6,969

The Group contributes to a defined contribution pension scheme for certain Executive Directors and employees. The scheme is administered by trustees and is independent of the Group finances. Total contributions by the Group to the pension scheme, including contributions for Directors amounted to US$0.5 million (2020: US$0.2 million).

10. Income tax

	2021 US$'000	2020 US$'000
Current tax		
Current year income tax	**11**	12
Deferred tax		
Origination and reversal of temporary differences (Note 27)	**1,608**	893
Deferred tax movement in Barryroe NPI (Note 27)	**(844)**	1,343
Total income tax charge	**775**	2,248
Deferred tax relating to items charged/credited to equity		
Deferred tax movement on fair value of other financial assets, Unquoted shares	**–**	–
Total income tax charge	**–**	–

The difference between the total tax shown above and the amount calculated by applying the applicable standard rate of Irish corporation tax to the loss before tax is as follows:

	2021 US$'000	2020 US$'000
Profit/(loss) before income tax	**41,492**	(9,605)
Tax on profit/(loss) at applicable Irish corporation tax rate of 25% (2020: 25%)	**10,373**	(2,401)
Effects of:		
Tax effect at fair value adjustment	**(844)**	326
Prior year adjustment	**(57)**	–
Losses utilised in year	**(1,085)**	(690)
(Income)/expenses not taxable	**(10,174)**	2,559
Income tax withheld	**4**	13
Effect of different tax rates	**(701)**	2
Adjustment for difference on overseas profit before tax	**(23)**	–
Excess losses carried forward	**3,282**	2,439
Tax charge for the year	**775**	2,248

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years. Liabilities for uncertain tax treatments are recognised in accordance with IFRIC 23 and are measured using either the most likely amount method or the expected value method – whichever better predicts the resolution of the uncertainty.

11. Profit/(loss) per share

Basic profit/(loss) per share

Basic loss per share is calculated by dividing the loss attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year as follows:

	2021 US$'000	2020 US$'000
Profit/(loss) for the year	**40,717**	(11,853)

The weighted average number of shares in issue is calculated as follows:

	2021 Number of shares	2020 Number of shares
In issue at start of year (Note 22)	**449,913,026**	451,303,014
Effect of tender offer and buybacks in the year	**–**	(1,332,865)
Weighted average number of ordinary shares in issue (basic)	**449,913,026**	449,970,149
Basic profit/(loss) per ordinary share (cent)	**9.05**	(2.63)

Diluted profit/(loss) per share

Diluted loss per share is calculated by dividing the loss attributable to equity holders of the Company by the weighted average number of ordinary shares outstanding after adjustment for effects of all dilutive potential ordinary shares as follows:

	2021 US$'000	2020 US$'000
Profit/(loss) for the year	**40,717**	(11,853)

The diluted weighted average number of shares in issue is calculated as follows:

	2021 Number of shares	2020 Number of shares
Basic weighted average number of shares in issue during the year	**449,913,026**	449,970,149
Effect of share options and warrants in issue	**5,700,841**	–
	455,613,867	449,970,149
Diluted profit/(loss) per ordinary share (cent)	**8.94**	(2.63)

The number of options which are anti-dilutive and have therefore not been included in the above calculations is 21,161,627 (2020: 41,221,627).

12. Intangible assets

	Exploration and evaluation assets US$'000
Cost and net book value	
At 1 January 2020	–
Additions (ii)	196
Write off/impairment of exploration and evaluation assets	(196)
At 31 December 2020	–
Additions (ii)	206
Write off/impairment of exploration and evaluation assets	(206)
At 31 December 2021	**–**

(i) The following geographical exploration areas in the Group were impaired/written off during the year:

	2021 US$'000	2020 US$'000
Albania	**206**	196
	206	196

(ii) This is the net amount incurred by San Leon Energy and excludes amounts attributable to joint operating partners of US$Nil in 2021 (2020: US$Nil).

The Directors have considered the carrying value at 31 December 2021 of capitalised costs in respect of its exploration and evaluation assets. These assets have been assessed for impairment indicators and in particular with regard to remaining licence terms, likelihood of licence renewal, likelihood of further expenditures and on-going appraisals for each area. Based on internal assessments from the latest information available, the Directors fully impaired the exploration and evaluation assets in 2021.

13. Equity accounted investments

	2021 US$'000	2020 US$'000
Cost and net book value		
At 1 January	**44,102**	44,798
Additions (ELI)	**–**	443
Share of profit/(loss) of equity accounted investments	**14,532**	(1,139)
At 31 December	**58,634**	44,102

The Group's only joint venture entities and associates at 31 December 2021 were as follows:

Name	Registered office	Type	% held
Midwestern Leon Petroleum Limited	5th Floor Barkly Wharf, Le Caudan Waterfront, Port Louis, Republic of Mauritius	Joint Venture	40%
Energy Link Infrastructure (Malta) Limited	260 Triq San Albert, Griza, GZR 1150, Malta	Associate	10%

13. Equity accounted investments continued

2021
A summary of the financial information of the equity investments is detailed below.

	Midwestern Leon Petroleum Limited (i)	Energy Link Infrastructure (Malta) Limited (ii)	**Total**
Equity Interest	40%	10%	
	US$'000	US$'000	**US$'000**
Profit/(loss) from continuing operations	37,030	(9,109)	**27,921**
Total comprehensive profit/(loss)	37,030	(9,109)	**27,921**
Non-current assets	242,555	191,207	**433,762**
Current assets (excluding cash)	316,252	650	**316,902**
Cash	–	35,102	**35,102**
Non-current liabilities	–	(55,790)	**(55,790)**
Current liabilities	(412,222)	(175,496)	**(587,718)**
Net assets/(liabilities)	146,585	(4,327)	**142,258**
Group's interest in net assets of investee at 1 January 2021	43,822	280	**44,102**
Additions	–	–	**–**
Share of profit/(loss)	14,812	(280)	**14,532**
Group's interest in net assets of investee at 31 December 2021	58,634	–	**58,634**

2020
A summary of the financial information of the equity investments is detailed below.

	Midwestern Leon Petroleum Limited (i)	Energy Link Infrastructure (Malta) Limited (ii)	Total
Equity Interest	40%	10%	
	US$'000	US$'000	US$'000
Loss from continuing operations	(2,440)	(2,804)	(5,244)
Total comprehensive loss	(2,440)	(2,804)	(5,244)
Non-current assets	198,948	147,922	346,870
Current assets (excluding cash)	286,687	167	286,854
Cash	–	46,334	46,334
Non-current liabilities	–	(141,458)	(141,458)
Current liabilities	(376,082)	(47,214)	(423,296)
Net assets	109,553	5,751	115,304
Group's interest in net assets of investee at 1 January 2020	44,798	–	44,798
Additions	–	443	443
Share of loss	(976)	(163)	(1,139)
Group's interest in net assets of investee at 31 December 2020	43,822	280	44,102

13. Equity accounted investments continued

(i) Midwestern Leon Petroleum Limited

During 2016 the Company acquired a 40% non-controlling interest in MLPL as part of the OML 18 transaction. Full details of the OML 18 transaction are set out in Note 15(i). The movement during 2021 reflects a share of the profit of MLPL being administrative costs of US$6.4 million (2020: US$9.7 million), other income of US$0.2 million (2020: US$Nil), net finance income of US$8.0 million (2020: US$3.3 million), profit on investment of US$44.0 million (2020: US$12.2 million loss), net profits on financial assets of US$1.2 million (2020: US$0.3 million losses) and a tax charge of US$10.0 million (2020: US$7.9 million).

The above interest is accounted for as an equity accounted investment as San Leon does not have control over the entity, which is governed under a Joint Venture Agreement requiring the approval of both parties to the Joint Venture Agreement in respect of all operating decisions.

The Group identified potential impairment indicators, being that MLPL is yet to receive a dividend from Eroton, US$2.9 million of a US$10.0 million repayment due on 6 October 2020 was still outstanding at year end, and MLPL has entered into a loan to be able to make Loan Note repayments to the Group. To test for a potential impairment the carrying value of the equity interest in MLPL was compared against the fair value less cost of sale. This was estimated using a discounted cash flow model of the expected future cash flows from MLPL's share of the underlying OML 18 asset. Future cash flows of OML 18 were estimated using the following price assumptions of US$69/bbl in 2023 and a subsequent long-term price of US$66/bbl escalated at 2% annually, with the cash flows discounted using a post-tax discount rate of 10%. Assumptions involved in the impairment assessment include estimates of commercial reserves, production rates, future oil prices, discount rates and operating and capital expenditure profiles, all of which are inherently uncertain. This analysis identified that the carrying value of the equity interest in MLPL is not impaired.

If the recoverable amount was estimated taking into account a reduction in the oil price of 30% over the same period and an increase in the discount rate to 25%, then the carrying value of the equity interest in MLPL would still not be impaired.

The Directors recognise that the future realisation of the equity accounted investment is dependent on future successful exploration and appraisal activities and subsequent production of oil and gas reserves.

(ii) Energy Link Infrastructure (Malta) Limited

In August 2020 the Company acquired a 10% non-controlling interest in Energy Link Infrastructure (Malta) Limited (See Note 15(ii)). The movement during 2021 reflects a share of the loss of ELI being sales income of US$1.4 million (2020: US$5.7 million), other income of US$0.1 million (2020: US$0.1 million), cost of sales of US$7.4 million (2020: US$4.9 million) and operating expenses including administrative costs of US$3.2 million (2020: US$3.7 million).

San Leon does not have control over the entity, however it has been determined to have significant influence. On this basis, the above interest is recognised as an equity accounted investment. Significant influence has been determined based on the Company having 10% of voting rights, a board position and a Shareholder Agreement requiring a majority, and in some instances a super majority (meaning 70% of votes are required to pass a resolution), to approve all operating decisions.

Under the terms of ELI's senior debt facility, the lender has a charge over all of the company's assets and, as further security, each shareholder (including San Leon Energy) has pledged their shares to the lender. The terms of the pledge are that the shares cannot be transferred or otherwise utilised without the lender's consent.

The Directors recognise that the future realisation of the equity accounted investment is dependent on completion of the pipeline and subsequent throughput of oil from various customers.

14. Property, plant and equipment

	Leased assets US$'000	Plant & equipment US$'000	Office equipment US$'000	Motor vehicles US$'000	Total US$'000
Cost					
At 1 January 2020	3,281	9,050	1,203	495	14,029
Disposals	–	–	(111)	–	(111)
Currency translation adjustment	–	116	–	(15)	101
At 31 December 2020	3,281	9,166	1,092	480	14,019
Additions	244	–	–	–	244
Disposals	(231)	–	(9)	(124)	(364)
Currency translation adjustment	–	(513)	(44)	(72)	(629)
At 31 December 2021	**3,294**	**8,653**	**1,039**	**284**	**13,270**
Depreciation					
At 1 January 2020	329	7,803	1,138	415	9,685
Charge for the year	378	622	12	16	1,028
Disposals	–	–	(111)	–	(111)
Currency translation adjustment	–	122	16	(15)	123
At 31 December 2020	707	8,547	1,055	416	10,725
Charge for the year	370	619	22	17	1,028
Disposals	(231)	–	(9)	(124)	(364)
Currency translation adjustment	–	(513)	(44)	(72)	(629)
At 31 December 2021	**846**	**8,653**	**1,024**	**237**	**10,760**
Net book values					
At 31 December 2021	**2,448**	**–**	**15**	**47**	**2,510**
At 31 December 2020	2,574	619	37	64	3,294

15. Financial assets

	OML 18 (i) US$'000 Amortised cost	ELI (ii) US$'000 Amortised cost	Barryroe 4.5% net profit interest (iii) US$'000 FVTPL	Unquoted shares (iv) (viii) US$'000 FVOCI – equity instrument	Total US$'000
Cost/Valuation					
At 1 January 2020	114,254	–	2,769	194	117,217
Net fair value of acquisition of ELI Loan Notes	–	14,557	–	–	14,557
Finance income	16,480	796	–	–	17,276
Loan Notes receipts – principal	(35,285)	–	–	–	(35,285)
Loan Notes receipts – interest	(11,215)	–	–	–	(11,215)
Lifetime ECL – credit-impaired #	(15,309)	–	–	–	(15,309)
Impairment of unquoted shares, Other comprehensive income	–	–	–	(194)	(194)
Fair value movement, Income statement	–	–	4,073	–	4,073
At 31 December 2020	68,925	15,353	6,842	–	91,120
Finance income	12,122	2,468	–	–	14,590
Loan Notes receipts – principal	–	–	–	–	–
Loan Notes receipts – interest	(2,150)	–	–	–	(2,150)
Impairment reversal – (credit-impaired assets) #	1,447	–	–	–	1,447
Fair value movement, Income statement	–	–	(2,551)	–	(2,551)
At 31 December 2021	**80,344**	**17,821**	**4,291**	**–**	**102,456**
Expected Credit Loss Provision					
At 1 January 2020		–	–	–	–
New financial asset acquired *		(385)	–	–	(385)
At 31 December 2020		(385)	–	–	(385)
Net remeasurement of loss allowance		(255)	–	–	(255)
At 31 December 2021		**(640)**	**–**	**–**	**(640)**

 # See OML18 ECL table below.
** See ELI ECL table below.*

15. Financial assets continued

Expected Credit Loss – OML 18	Performing 12-month ECL	Higher risk assets not credit impaired Lifetime ECL	Credit impaired Lifetime ECL	Total
At 1 January 2020	–	(2,002)	–	(2,002)
Impact of modification	–	(5,857)	–	(5,857)
Net remeasurement of loss allowance	–	(7,450)	–	(7,450)
Transfer to lifetime ECL – credit-impaired	–	15,309	(15,309)	–
At 31 December 2020	–	–	(15,309)	(15,309)
Impact of modification	–	–	1,503	1,503
Net remeasurement of loss allowance	–	–	1,447	1,447
Effective interest on ECL	–	–	(3,794)	(3,794)
At 31 December 2021	**–**	**–**	**(16,153)**	**(16,153)**

Expected Credit Loss – ELI	Performing 12-month ECL	Higher risk assets not credit impaired Lifetime ECL	Credit impaired Lifetime ECL	Total
At 1 January 2020	–	–	–	–
New financial asset acquired *	(385)	–	–	(385)
At 31 December 2020	(385)	–	–	(385)
Transfer to Lifetime ECL	385	(385)	–	–
Net remeasurement of loss allowance	–	(255)	–	(255)
At 31 December 2021	**–**	**(640)**	**–**	**(640)**

	OML 18 (i) US$'000	ELI (ii) US$'000	Barryroe 4.5% net profit interest (iii) US$'000	Unquoted shares (iv) (viii) US$'000	
	Amortised cost	Amortised cost	FVTPL	FVOCI – equity instrument	Total US$'000
Book value at 31 December 2021	**80,344**	**17,181**	**4,291**	**–**	**101,816**
Current	**80,344**	**10,815**	**–**	**–**	**91,159**
Non-current	**–**	**6,366**	**4,291**	**–**	**10,657**
Book value at 31 December 2020	68,925	14,968	6,842	–	90,735
Current	68,925	3,964	–	–	72,889
Non-current	–	11,004	6,842	–	17,846

Net Profit Interests (Poznan, v) (Gora, vi) (Liesa, vii): These NPIs have a nil value from acquisition.

15. Financial assets continued

(i) OML 18

In September 2016, the Company secured an indirect economic interest in OML 18, onshore Nigeria.

The Company undertook a number of steps to effect this purchase. MLPL, a company incorporated in Mauritius of which San Leon Nigeria B.V. has a 40% shareholding, was established as a special purpose vehicle to complete the transaction by purchasing all of the shares in Martwestern, a company incorporated in Nigeria. Martwestern holds a 50% shareholding in Eroton, a company incorporated in Nigeria and the operator of OML 18, and Martwestern also holds an initial 98% economic interest in Eroton. The economic effect of this structure is that San Leon has an initial indirect economic interest of 10.584% in OML 18. Shareholders will note that this is higher than the percentage interest anticipated by San Leon at the time of the acquisition in 2016. There have been no further purchases or payments by San Leon but this revised percentage is based on a reassessment and recalculation of the various parties' interests in OML 18.

To partly fund the purchase of 100% of the shares of Martwestern, MLPL borrowed US$174.5 million in incremental amounts by issuing loan notes with an annual coupon of 17% ("Loan Notes") and effective interest rate of 25%, as noted below. Midwestern Oil and Gas Company Limited ("Midwestern") is the 60% shareholder of MLPL and transferred its shares in Martwestern to MLPL as part of the full transaction. Following its placing in September 2016, San Leon became beneficiary and holder of all Loan Notes issued by MLPL and the holder of an indirect economic interest in OML 18. San Leon is due to be repaid the full amount of the US$174.5 million plus the 17% coupon once certain conditions have been met and using an agreed distribution mechanism. Through its wholly owned subsidiary, San Leon Nigeria B.V., the Company is also a beneficiary of any dividends that will be paid by MLPL as a 40% shareholder in MLPL but the Loan Notes repayments must take priority over any dividend payments made to the MLPL shareholders.

The fair value assessment of the Loan Notes on acquisition was calculated as follows:

	Total US$'000
Total consideration	188,419
Fair value of Loan Notes attributable to equity investment #	(30,889)
Net fair value of Loan Notes	157,530
Arrangement fees	(5,500)
Additions to Financial Assets in 2016 including accrued interest at date of acquisition	152,030

 # The fair value of Loan Notes attributable to the equity investment is calculated using a discount factor of management's estimate of a market rate of interest of 8% above the coupon rate of 17% over the term of the Loan Notes, giving an effective interest rate of 25%.

The key information relevant to the fair value of the Loan Notes on the date they were initially recognised is as follows:

Valuation technique	Significant unobservable inputs*	Inter-relationships between the unobservable inputs and fair value measurements
Discounted cash flows	• Discount rate 25% based on a market rate of interest of 8% above the coupon rate of 17% • MLPL ability to generate cash flows for timely repayment • Loan Notes are repayable in full by 31 December 2021 (2020: 31 December 2021)	Nil

** On initial recognition. Under the conditional payment waiver the Loan Notes are expected to fall due on 30 June 2022. Other unobservable inputs are considered appropriate at 31 December 2021.*

The business model for the MLPL loan is to hold to collect. The Loan Notes are accounted for at amortised cost.

15. Financial assets continued

The credit risk is managed via various undertakings, guarantees, a pledge over shares and the mechanism whereby MLPL prioritises payment of sums due under the Loan Notes. These are described further in Note 29. Given the size and quality of the OML 18 oil and gas asset the main credit risk is regarded as the timing of payments by MLPL which is dependent on dividend distributions by Eroton rather than being unable to pay the total quantum due under the Loan Notes. To date Eroton have been unable to make a dividend distribution. Consequently, MLPL had to enter into a loan in 2017 and subsequently, in order to be able to meet its obligations under the Loan Notes and make payments to San Leon.

On 6 April 2020, the Company entered into an Agreement with MLPL, amending the timing of the remaining payment of the Loan Notes Instrument. At the date of the Agreement, the remaining outstanding balance on the par value was US$82.1 million (accounted for as US$79.5 million under IFRS). Under the terms of the Agreement, US$10.0 million was due to be repaid on or before 6 October 2020, with the balance of the Loan Notes receivable payable in three quarterly instalments, commencing in July 2021 and completing by December 2021. Following the Agreement the outstanding loan continued to have an annual coupon rate of 17% and an effective interest rate of 25% per annum. All other material terms of the Loan Notes Instrument remained unchanged. The Agreement with MLPL was accounted for as a modification of the financial asset which did not give rise to derecognition. A loss of US$2.5 million was recognised in respect of the change in present value of the revised cash flows discounted at the original effective interest rate.

On 24 June 2021 the Company announced that it had entered into preliminary discussions with Midwestern in connection with the potential acquisition of the shares of MLPL owned by Midwestern (the "Potential Transaction"). The Company expects that the Potential Transaction, if agreed, would include the elimination of the Loan Notes. In connection with these discussions, on 6 July 2021 the Company agreed a conditional payment waiver in respect of the amounts under the Agreement that fell due in July 2021 and within 30 days of expiry of the conditional payment waiver. Under the terms of the conditional payment waiver amounts payable under the Agreement would fall due 90 days following expiry. Interest continued to accrue on the outstanding principal of the Loan Notes at 17%.

The conditional payment waiver was originally due to expire on the earlier of 31 August 2021 or the date an agreement was reached with Midwestern to effect the Potential Transaction. The conditional payment waiver was subsequently extended to include payments due up to December 2021.

The conditional payment waiver was accounted for as a modification of the financial asset which did not give rise to derecognition. The amortised cost of the Loan Notes immediately prior to the modification was US$74.8 million (being a gross asset of US$92.6 million and expected credit loss provision of US$17.8 million. A net modification loss of US$3.2 million was recognised in respect of the change in present value of the revised cash flows discounted at the original effective interest rate.

During 2021 San Leon received total payments under the Loan Notes of US$2.2 million (2020: US$46.5 million). The payments received during 2021 represent principal of US$Nil (2020: US$35.3 million) and interest of US$2.2 million (2020: US$11.2 million) on the Loan Notes repaid. As at 31 December 2021 there was US$96.5 million in principal and interest (2020: US$84.2 million) due under the Loan Notes. As at 31 December 2021, US$2.9 million was outstanding from the US$10.0 million due to be repaid on 6 October 2020.

The Directors of San Leon have considered the credit risk of the Loan Notes at 31 December 2021 and 31 December 2020. Due to the inability of MLPL to make dividend distributions, the Directors continue to consider that the credit risk has significantly increased since initial recognition. At 31 December 2019 and subsequently a provision for the lifetime expected credit loss of the Loan Notes had been recognised.

In addition, the Directors have reviewed the counterparty credit risk associated with measurement of the expected credit loss. This was assessed as having increased significantly since initial recognition.

Management are still confident in the operational potential of OML 18 and ultimately recovering the full amount of the outstanding Loan Notes, however due to the above issues management are unable to determine the timing of future cash flows and for this reason the Loan Notes are now considered credit impaired.

15. Financial assets continued

The Loan Notes are unique assets for which there is no directly comparable market data. Repayments of the Loan Notes are expected to be made from the underlying cash flows that support MLPL or, if the Potential Transaction is agreed, the Loan Notes will be taken into account and eliminated as part of the overall structure agreed. The Directors have considered the credit risk of MLPL, in particular in light of the Covid-19 pandemic and the resultant impact on the oil price and demand, as well as ongoing short term production issues. The Loan Notes continue to be considered to be impaired. An impairment has been estimated based on a forward-looking analysis where a range of outcomes has been considered taking into account the size and timing of the contractual cash flows, the risk of the Potential Transaction being delayed or not agreed, risk of late payments and the risk of default leading to less than full recovery of the amounts due in respect of the Loan Notes. The Directors have considered the possible scenarios and used their judgement to estimate a weighted average outcome of these scenarios. The impairment is calculated as the difference between the present value of the weighted average of possible outcomes (discounted at the effective interest rate of the Loan Notes) and the present value of the contractual cash flows.

As at 31 December 2021 the Loan Notes are considered credit impaired. The expected credit loss of US$16.2 million (2020: US$15.3 million) has been presented net as part of the amortised cost of the Loan Notes. The expected credit loss has been calculated with a very high probability that the Potential Transaction will complete, and therefore the Loan Notes will extinguish, and the Company believes that the value of the Potential Transaction is worth at least the value of the Loan Notes.

See Subsequent events (Note 31) for further information on the discussions with Midwestern about acquiring Midwestern's indirect interest in the OML 18.

**Refer to Alternate Performance Measures on Page 133 for full reconciliation of IFRS numbers and Alternative Performance Measures.*

(ii) Energy Link Infrastructure (Malta) Limited

In August 2020, the Company acquired an indirect economic interest in the Alternate Crude Oil Evacuation System ("ACOES") project.

The initial interest was acquired through the direct investment in Energy Link Infrastructure (Malta) Limited ("ELI" or "ELI Malta"), a company incorporated in Malta, which owns the ACOES project through its 100% owned subsidiary Energy Link Infrastructure (Nigeria) Limited, a company incorporated in Nigeria ("ELI Nigeria").

The investment comprises a 10% equity interest in ELI together with a US$15.0 million shareholder loan at a coupon of 14% per annum over 4 years, and repayable quarterly following a one year moratorium from the date of investment (the "ELI Loan Notes"). Funds were provided to ELI in two tranches with the first US$10.0 million tranche being paid in August, and the second tranche of US$5.0 million on 6 October 2020, being half of the funds due from Midwestern Leon Petroleum Limited as part of the repayment of the MLPL Loan Notes.

The fair value assessment of the Loan Notes on acquisition was calculated as follows:

	Total US$'000
Total consideration	15,000
Fair value of Loan Notes attributable to equity investment #	(443)
Net fair value of Loan Notes	14,557

 # The fair value of Loan Notes attributable to the equity investment is calculated using a discount factor of management's estimate of a market rate of interest of 2% above the coupon rate of 14% over the term of the Loan Notes, giving an effective interest rate of 16%.

15. Financial assets continued

The key information relevant to the fair value of the Loan Notes on the date they were initially recognised is as follows:

Valuation technique	Significant unobservable inputs*	Inter-relationships between the unobservable inputs and fair value measurements
Discounted cash flows	• Discount rate 16% based on a market rate of interest of 2% above the coupon rate of 14%. • ELI ability to generate cash flows for timely repayment. • Loan Notes are repayable in full by 6 October 2024.	Nil

** Day 1 and considered appropriate at 31 December 2021 and 31 December 2020.*

The business model applicable to the ELI loan is to hold to collect.

The credit risk is managed via various undertakings, such as representations, warranties and covenants and the ability for a preferential distribution should some warranties be breached. These are described further in Note 29. Given the nature and stage of the asset the main credit risk is regarded as the timing of payments by ELI Malta which is dependent on dividend distributions by ELI Nigeria rather than being unable to pay the total quantum due under the ELI Loan Notes.

The Directors of San Leon have considered the credit risk of the ELI Loan Notes at 31 December 2021 and 31 December 2020. Both tranches of the ELI Loan Notes were issued in H2 2020, with a one-year repayment holiday. Quarterly repayments were due from 31 July 2021 (for the first tranche) and 6 October 2021 (second tranche). As at 31 December 2021 no repayments had been received. As at 31 December 2021 there was US$17.8 million in principal and interest due under the ELI Loan Notes.

San Leon announced on 24 June 2021 that it is considering making further debt and equity investments in ELI and reaffirmed that intention in subsequent announcements. The Company has agreed with ELI that, should these further investments be made, then the First Instalment will be offset from any investment monies payable to ELI by San Leon under certain of these new arrangements. Pending any further investment in ELI, the First Instalment will continue to accrue interest at 14% per annum. Project delays have impacted the ability of ELI to make ELI Loan Note repayments, with current projections indicating that debt will start to be serviced in the second half of 2022 when barging operations commence. It is the Directors opinion that ELI will make full repayment of the outstanding loan notes.

The Directors have considered the credit risk of the ELI Loan Notes and the counterparty credit risk as at 31 December 2021. A guarantee from ELI Nigeria, who guarantee all payment obligations of ELI Malta, has also been taken into account. As a result of the delay in operations and ELI Loan Notes being overdue, the Directors have determined that there has been a significant increase in credit risk since initial recognition of the ELI Loan Notes, and a provision for the lifetime expected credit loss of the ELI Loan Notes has been recognised. The ELI Loan Notes are not considered to be credit impaired on the basis of the delays in ELI commencing repayment of the loan notes.

An expected credit loss provision has been estimated based on a forward-looking analysis where a range of outcomes has been considered taking into account the size and timing of the contractual cash flows, the risk of late payment and the risk of default leading to less than full recovery of the amounts due in respect of the ELI Loan Notes. The Directors have considered the possible scenarios and used their judgement to estimate a weighted average outcome of these scenarios. The ECL provision is calculated as the difference between the present value of the weighted average of possible outcomes (discounted at the effective interest rate of the ELI Loan Notes) and the present value of the contractual cash flows. This has then been compared to publicly available macroeconomic data of default rates by geography, industry and rating.

The Company determined that the expected credit loss provision of US$0.6 million (2020: US$0.4 million), being 3.6% (2020: 2.5%) of the outstanding balance was appropriate.

15. Financial assets continued

(iii) Barryroe – 4.5% Net Profit Interest

SLE holds a 4.5% Net Profit Interest in the Barryroe ("Barryroe NPI") oil field at fair value through profit and loss under IFRS 9. In 2019 a market-based valuation approach was adopted, using the price of the publicly listed shares of Providence Resources plc ("Providence") (operator and holder of an 80% interest in the Barryroe oil field) as its basis. The Directors believe the markets assessment of the current risks and uncertainties of the project have been reflected within the share price of Providence at year end, and it is therefore appropriate to use this to update their valuation.

Given the latest announcements, the Directors have reviewed the modelling assumptions and consider it reasonable and appropriate to continue to use a market based approach to decrease the Barryroe carrying value by US$2.6 million (2020: gain of US$4.0 million) to US$4.2 million to reflect their estimate of the impact of these risks to the future cash flows on the value of the asset.

The key information relevant to the fair value of the Barryroe 4.5% net profit interest is as follows:

Valuation technique	Significant unobservable inputs	Inter-relationships between the unobservable inputs and fair value measurements
Market based approach using share price of Operator (Providence)	• Estimated value of NPI as percentage of total field NPV 9.5% (2020: 9.5%)	The estimated fair value would increase/(decrease) if: • US Dollar exchange rate increased/(decreased)

(iv) Ardilaun Energy Limited

As part of the consideration for the sale of Island Oil & Gas Limited to Ardilaun Energy Limited ("Ardilaun") in 2014 Ardilaun agreed to issue shares equivalent to 15% of the issued share capital of Ardilaun to San Leon. The original fair value of the 15% interest in Ardilaun was based on a market transaction in Ardilaun shares.

The Directors have considered the carrying value of this interest at 31 December 2021 and given the length of time to obtain Irish government approval for the transaction, the Directors feel it is prudent to continue to carry the 15% of Ardilaun shares still to be issued to San Leon at a value of US$Nil (2020: US$Nil).

(v) Poznan 10% Net Profit Interest

In 2016, San Leon sold its 35% interest in the Poznan assets for a consideration of €1 plus a 10% NPI. Until active development commences a nil value has been placed on the NPI. There has been no change in 2021.

(vi) Gora 5% Net Profit Interest

In 2018, San Leon sold its interest in the Gora assets for a consideration of €1 plus a 5% NPI. Until active development commences a nil value has been placed on the NPI. There has been no change in 2021.

(vii) Liesa 5% Net Profit Interest

In 2018, San Leon sold its interest in the Liesa assets for a consideration of €1 plus a 5% Net Profit Interest ("NPI"). Until active development commences a nil value has been placed on the NPI. There has been no change in 2021.

(viii) Gemini Resources Limited

In 2019, San Leon converted a debtor of US$192,607 due from Gemini Resources Limited ("Gemini") into 54,818 fully paid ordinary shares in Gemini.

The Directors considered the carrying value of this interest at 31 December 2021 to be US$Nil.

(ix) Amedeo Resources plc

At 31 December 2021, the Company holds 213,512 ordinary shares at a market value of US$Nil (2020: US$Nil). The value of the investment was written down to nil in 2018 due to the shares of Amedeo Resources plc being de-listed.

16. Inventory

	2021 US$'000	2020 US$'000
Spare parts and consumables	**168**	183

Spare parts include drilling equipment and consumables utilised by the Group's seismic services company.

17. Trade and other receivables

	2021 US$'000	2020 US$'000
Amounts falling due within one year:		
Trade receivables	**9,860**	2
Corporation tax refundable	**–**	39
VAT and other taxes refundable	**80**	88
Other debtors (i)	**4,429**	4,264
Expected credit loss on other debtors (i)	**(3,630)**	(3,532)
Prepayments (ii)	**2,903**	1,017
	13,642	1,878

(i) In 2017, other debtors included US$3.6 million due from NSP Investments Holdings Ltd for the disposal of equity accounted investments. During 2018, the Directors fully provided for the amount.

In September 2021, Gemini Energy B.V. concluded transactions to gain 100% ownership of these equity accounted investments. To accommodate and agree to the transfer of the shares in the equity accounted investments from NSP to Gemini, Gemini offered and agreed to pay San Leon:

(a) a payment of US$1.5 million by no later than the first anniversary of the transfer of the equity accounted investments shares to Gemini; and

(b) make an additional payment of US$2.1 million under the terms of a net profits interest agreement.

The Gemini obligations replace the amounts due from NSP and the expected credit loss for the total amount remains.

See Related party transactions (Note 29) for further details.

The remaining other debtors consists of rent deposits and similar receivables.

(ii) Prepayments includes an amount of US$0.8 million (2020: US$0.8 million) in relation to the Oza deal and US$2.0 million (2020: US$Nil) in relation to the ELI conditional investment, detailed in Subsequent Events (Note 31).

18. Cash and cash equivalents

	2021 US$'000	2020 US$'000
Cash and cash equivalents	**839**	11,757
Solicitor client account (i)	**6,753**	6,753
	7,592	18,510

(i) Solicitor client account at 31 December 2021 represents monies held on behalf of the Company by Dentons ACAS-Law in relation to the Oza deal, detailed in Subsequent Events (Note 31).

19. Trade and other payables

	2021 US$'000	2020 US$'000
Current		
Trade payables	**1,286**	719
PAYE/PRSI	**223**	295
Corporation tax	**6**	–
Payroll and pensions	**750**	–
Other creditors	**67**	36
Accruals	**2,080**	2,248
Current portion of lease	**340**	333
	4,752	3,631

20. Derivative

	2021 US$'000	2020 US$'000
Non-current		
Derivative	**–**	9
	–	9

20. Derivative continued

The key inputs into the valuation model are as follows:

Valuation technique	Significant unobservable inputs	Inter-relationships between the unobservable inputs and fair value measurement
Black-Scholes model	Option strike price: £0.30 to £0.45 up to date options expired in the year (2020: £0.30 to £0.45)	The estimated fair value would increase/(decrease) if:
	Average maturity: 0 to 1 year up to date options expired in the year (2020: 0 to 1 year)	The share price increased/(decreased)
	Risk-free interest rate: 0.055% up to date options expired in the year (2020: 0.055%)	Sterling exchange rate increased/(decreased)
	Share price volatility: 62% up to date options expired in the year (2020: 62%)	The risk free interest rate increased/(decreased)

The derivative was in relation to options and warrants that were issued in connection with financing provided to the Company between 2016 and 2018.

21. Provisions for liabilities

	Decommissioning US$'000
At 1 January 2020	56
At 31 December 2020	56
At 31 December 2021	**56**
Current	**56**
Non-current	**–**

Decommissioning

The provision for decommissioning costs is recorded at the value of the expenditures expected to be required to settle the Group's future obligations on decommissioning of previously drilled wells.

22. Share capital

Rights and obligations attaching to the Ordinary Shares

The Company has no securities in issue conferring special rights with regards control of the Company. All Ordinary Shares rank pari passu, and the rights attaching to the Ordinary Shares (including as to voting and transfer) are as set out in the Company's Articles of Association ("Articles").

	Number of New Ordinary shares €0.01 each	Number of Deferred Ordinary shares €0.0001 each	Authorised Equity US$'000
Authorised equity			
At 1 January 2020	2,847,406,025	–	177,475
At 31 December 2020	2,847,406,025	–	177,475
At 31 December 2021	**2,847,406,025**	**–**	**177,475**

Issued, called up and fully paid:

	Number of New Ordinary shares €0.01 each	Number of Deferred Ordinary shares €0.0001 each	Share capital US$'000	Share premium US$'000
At 1 January 2020	451,303,014	–	5,172	21,077
Share buybacks	(1,389,988)	–	(15)	–
At 31 December 2020	449,913,026	–	5,157	21,077
At 31 December 2021	**449,913,026**	**–**	**5,157**	**21,077**

See Consolidated Statements of Changes in Equity on pages 54 to 55.

Share buyback programme

On 22 January 2020 the Company announced that it had completed the buyback programme. Under the Buyback Programme, the Company repurchased 5,709,101 Ordinary Shares at an aggregate value of £1,570,085.49. Following cancellation of the final shares repurchased, the total number of Ordinary Shares in issue with voting rights was 449,913,026.

23. Dividends paid

No dividends were declared in 2021. In May 2020, the Company returned a special dividend to its shareholders of £0.06 per share, totalling US$33.3 million (£27.0 million).

24. Reserves

The Statement of Changes in Equity outlines the movement in reserves during the year. Further details of these reserves are set out below:

Currency translation reserve
The currency translation reserve comprises all foreign currency differences arising from the translation of the financial statements of foreign operations.

The recycling of the currency translation reserve of US$16.6 million (2020: US$1.0 million) relates to the realisation of the cumulative foreign currency gains and losses on the disposal or liquidation of non-core assets.

Share-based payments reserve
The share-based payments reserve comprises the fair value of all share options which have been charged over the vesting period, net of the amount relating to share options which have expired, been cancelled and have vested.

Fair value reserve
The fair value reserve comprises the cumulative net change in the fair value of financial assets measured at Fair Value through Other Comprehensive Income until the assets are derecognised.

Special reserve
Pursuant to a capital reduction in 2019 the Company undertook to credit US$5,024,260 to a special reserve. This special reserve is not a distributable reserve and must remain in place until such time as obligations in respect of certain guarantees given by the company have lapsed or become unenforceable.

25. Share-based payments

Prior to 31 December 2012, the Group had one share-based payment scheme for executives and senior employees of the Group. In accordance with the provisions of the plan, as approved by shareholders at a previous general meeting, executives and senior employees may be granted options to purchase ordinary shares.

Each share option converts into one ordinary share of San Leon Energy plc on exercise and options do not carry rights to dividends nor voting rights. Options may be exercised at any time from the date of vesting to the date of their expiry. The options vest in tranches subject to the achievement of certain service and non-market performance conditions. Market conditions in relation to the achievement of share price trading levels also apply in the case of certain options granted to the Directors, further details of which are set out in the Directors' Report.

During the first quarter of 2013, this scheme was replaced by a more formal Share Option Plan, which governs all future awards of share options made by San Leon. All employees, and certain Directors and consultants, may from time to time be eligible to receive a discretionary bonus to be awarded in the form of options over San Leon Ordinary shares. Historic options in respect of San Leon shares will continue to be governed by the terms and conditions set out in the historic share-based payments scheme.

The Group's equity share options are equity settled share-based payments as defined in IFRS 2: Share-based payments. The total share-based payment charge for the year has been calculated based on grant date fair value obtained using an option pricing model with a discount for market conditions applied based on a Monte Carlo simulator analysis where appropriate. The charge for the year is US$Nil (2020: US$891,263) includes the charge for options issued to the Directors of US$Nil (2020: US$418,048) and shares to be issued to Directors of US$Nil (2020: US$Nil).

25. Share-based payments continued

The movement on outstanding share options and warrants during the year was as follows:

	2021		2020	
	Number of options / warrants	**Weighted average exercise price**	Number of options / warrants	Weighted average exercise price
Balance at beginning of the financial year	**41,221,627**	**£0.397**	40,559,075	£0.400
Granted during the financial year	**–**	**–**	1,000,000	£0.450
Modified during the financial year *	**–**	**–**	–	£0.393
Expired or cancelled during the financial year	**(8,560,000)**	**£0.445**	(337,448)	£0.592
Exercised during the financial year	**–**	**–**	–	–
Balance at end of the financial year	**32,661,627**	**£0.412**	41,221,627	£0.397
Exercisable at end of the financial year	**32,661,627**	**£0.412**	41,221,627	£0.397

The range of exercise prices of outstanding options/warrants at year end is £0.25 to £0.45 (2020: £0.25 to £0.45).

* On 26 February 2020 the Company repriced 1,500,000 options from £0.45 to £0.35, the expiry date of these options was also extended from 26 February 2020 by 4 years to 26 February 2024. The resulting charge for the year was US$326,581.

* On 2 October 2020 the Company extended the expiry date of 2,222,222 options by 5 years to 2 October 2025. This resulted in a charge for the year of US$146,635.

The weighted average remaining contractual life for options/warrants outstanding at 31 December 2021 is 1.79 years (2020: 2.94 years).

During the current year no options were exercised (2020: Nil).

The following table illustrates the number, exercise price and expiry date of share options and warrants remaining at year end.

Type	Number	Exercise price	Year of expiration
Options	6,250,000	£0.45	2022
Options	6,625,000	£0.45	2023
Warrants	10,000,000	£0.25	2023
Warrants	4,939,405	£0.45	2023
Options	1,500,000	£0.35	2024
Options	125,000	£0.45	2024
Options	2,222,222	£0.45	2025
Options	1,000,000	£0.45	2028
Total	**32,661,627**		

25. Share-based payments continued

The following table lists the fair value of options granted and the inputs to the models used to calculate the grant date fair values of awards granted in 2021 and 2020:

	2021	2020
Weighted average fair value of options granted during year	N/a	£0.25
Weighted average share price of options at date of grant	N/a	£0.39
Dividend yield	N/a	0.00%
Exercise price	N/a	£0.45
Expected volatility	N/a	72%
Risk-free interest rate	N/a	0.55%
Expected option life	N/a	7 years
Expected early exercise %	N/a	0%
Model used	N/a	Black-Scholes

The expected life used in the model is based on the expectation of management attaching to the option and behavioural considerations and is not necessarily indicative of exercise patterns that may occur. Expected volatility is based on an analysis of the historical volatility of San Leon Energy plc shares and comparable listed entities. The fair value is measured at the date of grant. There are no conditions attached to the options.

26. Commitments and contingencies

(a) Lease obligation commitments

Cash commitments under lease obligations as a lessee (Note 28) are as follows:

	Total 2021 US$'000	Total 2020 US$'000
Payable:		
Within one year	340	369
Between one and five years	1,359	1,472
Over five years	1,246	1,718
	2,945	3,559

(b) Decklar Petroleum Limited

On 1 September 2020, the Company announced that it had conditionally agreed to invest US$7.5 million by way of a loan to Decklar Petroleum Limited, who is the holder of a Risk Service Agreement with Millenium Oil and Gas Company Limited on the Oza marginal field, carved out of OML 11, onshore Nigeria. Under the agreements, if completed, the Company will also receive a 15% interest in Decklar for a nominal amount paid. This transaction is still awaiting final conditions precedents to complete. See Note 31 for further detail.

(c) Exploration, evaluation and development activities

The Group has commitments of US$Nil (2020: US$Nil) in the year ended 31 December 2021 to contribute to its share of exploration and evaluation expenditure in respect of exploration licences and concessions held.

26. Commitments and contingencies continued

(d) Horizon Petroleum Ltd

The Group has a contingent asset, the consideration is in aggregate of US$2.0 million in relation to the sale completed in August 2019 to Horizon Petroleum Ltd.

The Group will receive the aggregate consideration when certain concessions are transformed and granted to Horizon.

(e) Island Oil & Gas Limited Guarantee

The Company has a Guarantee in respect of the decommissioning liabilities of Island (Seven Heads) Limited, a subsidiary of Island Oil & Gas Limited ("Island"). In the event that Island are unable to pay the decommissioning liabilities, under the Guarantee, the Company could be liable for any amounts Island does not pay.

27. Deferred tax

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2021 US$'000	2020 US$'000	**2021 US$'000**	2020 US$'000	**2021 US$'000**	2020 US$'000
Financial assets – IFRS 9	**–**	–	**(572)**	(1,416)	**(572)**	(1,416)
Financial assets – other	**175**	175	**–**	–	**175**	175
Unrealised exchange difference	**–**	–	**(22)**	(4)	**(22)**	(4)
Interest not taxable until received	**–**	–	**(863)**	(199)	**(863)**	(199)
Tax losses recognised	**–**	926	**–**	–	**–**	926
	175	1,101	**(1,457)**	(1,619)	**(1,282)**	(518)

	2021 US$'000	2020 US$'000
At 1 January	**(518)**	1,718
Deferred tax on fair value movements in financial assets IFRS 9, Barryroe NPI (Note 10)	**844**	(1,343)
Origination and reversal of temporary differences (Note 10)	**(1,608)**	(893)
At 31 December	**(1,282)**	(518)

Unrecognised deferred tax assets

	2021 US$'000	2020 US$'000
Tax losses	**5,036**	8,631
Capitalised expenditure	**358**	33,101
	5,394	41,732

Deferred tax assets have not been recognised in respect of the above items because it is not probable that future taxable profits will be available against which the Group can utilise these losses.

28. Leases

Statement of Financial Position

	2021 US$'000	2020 US$'000
Right of use asset (included within Property, plant and equipment)		
Property leases		
At 1 January	**2,574**	2,952
Additions	**244**	–
Depreciation charge for the period	**(370)**	(378)
Closing net carrying amount	**2,448**	2,574
Lease liability		
Property leases		
At 1 January	**2,761**	2,834
Payments – principal	**(227)**	(211)
Payments – interest	**(129)**	(131)
Currency translation adjustment	**(140)**	138
Interest	**129**	131
Closing net carrying amount	**2,394**	2,761
Current	**340**	333
Non-current	**2,054**	2,428

Income Statement

	2021 US$'000	2020 US$'000
Right of use asset (included within Property, plant and equipment)		
Property leases		
Depreciation charge	**139**	378
Interest expense	**129**	131
Total	**268**	509

29. Related party transactions

The Group has related party transactions with: i) Directors, ii) shareholders, iii) subsidiaries and iv) other entities with which it has entered into business arrangements. Due to the influence or material interest that these parties have in transactions with the Group they are required to be disclosed and are detailed below.

Red Cedar Energy DMCC

San Leon Energy plc and Red Cedar Energy DMCC have a common Director, Mr Oisín Fanning. San Leon has a consultancy agreement with Red Cedar Energy DMCC which was paid US$1,679,494 for amounts due for 2021 (2020: US$Nil). Please see the Director's emolument table on page 27 which includes the amount paid to Red Cedar Energy DMCC.

29. Related party transactions continued

Property

The Company holds an option to acquire a property at market value from Mr Fanning. The option is due to expire in 2026 and the option fee of US$409,000 is included in other debtors (Note 17) and is refundable when the Company either exercises or terminates the option. Mr Fanning was paid US$323,395 (2020: US$215,999) rent for the use of this property during the year by the Company.

The property is available for use by all staff and consultants requiring overnight accommodation while conducting business on behalf of the Company up to it being used for office space in June 2021, see below.

In June 2021, the Company signed a licence with Mr. Oisín Fanning to use the property for office space.

Director change in Shareholding

On 11 May 2020 the Company was notified that Mr Fanning, Chief Executive Officer of the Company, acquired 98,000,000 ordinary shares in the Company. Following the notification, Mr Fanning had an interest of 107,495,864 ordinary shares, representing 23.89% of the issued share capital of the Company.

On 23 December 2020 the Company announced that it had been informed that Mr Fanning had been unable to secure the necessary funding for the above share purchase. Consequently, settlement of the share purchase did not occur. Following this, Mr Fanning owns 9,495,864 ordinary shares in the Company, representing 2.1% of the issued share capital of the Company.

Greenbay Energy Resources Limited

San Leon Energy plc and Greenbay Energy Limited have a common Director, Mr Mutiu Sunmonu. San Leon has a consultancy agreement with Greenbay Energy Limited which was paid US$95,629 for amounts due for 2021 (2020: US$95,181). Please see the Director's emolument table on page 27 which includes the amount paid to Greenbay Energy Limited.

In June 2019, San Leon Energy plc entered into an agreement with Caledonian Properties Nigeria Limited ("Caledonian"), a company owned by Mr Mutiu Sunmonu, for the use of two properties in Lagos, Nigeria, and was extended for a further 2 years in June 2021. Caledonian was paid US$231,000 for the period 1 July 2019 to 30 June 2021 of which US$57,750 relates to 2021. Caledonian was also paid US$244,444 for the period 1 July 2021 to 30 June 2023 of which US$61,111 related to the period 1 July 2021 to 31 December 2021. It is common practice to pay such sums up-front in Nigeria.

The properties are being provided at a competitive rate and it is an arm's length transaction.

One of the properties is used as an office and the other property is available for use by all staff and consultants requiring accommodation while conducting business on behalf of the Company.

Gemini Energy B.V./Palomar Natural Resources (Netherlands) B.V./NSP Investments Holdings Ltd

On 18 November 2016, the Company announced the sale of its (i) 35% interest in TSH Energy Joint Venture B.V. (TSH) and (ii) 35% interest in Poznan Energy B.V. (Poznan) to Palomar Natural Resources (Palomar). This divested the Company's interest in the Rawicz and Siekierki fields respectively. A 10% net profit interest was retained in the Poznan assets. Palomar was regarded as a related party as it already held the remaining interest in both TSH and Poznan.

The total cash consideration due to the Company for the sale of its 35% interest in TSH was US$9.0 million, of which US$4.5 million was received in November 2016. The balance of US$4.5 million plus accrued interest (the "Amount Due") was due to paid to San Leon on or before 1 October 2017. As announced on 2 January 2018 under a novation agreement and extension agreement dated 22 December 2017, the Amount Due was the full responsibility of NSP Investments Holdings Ltd, a BVI registered company that holds a 35% interest in TSH. San Leon also announced that it had received a further US$1.5 million payment of the Amount Due. The Company was due to receive a further US$3.6 million, including an extension fee plus any further accrued interest on or before 1 September 2018. The Company had not received the US$3.6 million by 31 December 2018 and, provided for expected credit losses of US$3.4 million and reversed accrued interest receivable in 2018 of US$0.2 million. No further payments were received from NSP.

In September 2021, Gemini Energy B.V. concluded transactions to gain 100% ownership of both TSH and Poznan. To accommodate and agree to the transfer of the TSH and Poznan shares from NSP to Gemini, Gemini offered and agreed to pay San Leon:

(a) a payment of US$1.5 million by no later than the first anniversary of the transfer of the TSH Shares to Gemini; and

(b) make an additional payment of US$2.1 million under the terms of a net profits interest agreement. The Gemini obligations replace the amounts due from NSP.

29. Related party transactions continued

Toscafund Asset Management LLP

Toscafund Asset Management LLP (Toscafund) is a related party on the basis that funds managed by Toscafund hold a substantial shareholding in San Leon Energy plc and the substantive transactions which the parties entered into during 2016 and as more fully described below detailing the purchase of the indirect interest in OML 18.

On 11 May 2020 the Company was informed that funds managed by Tosca Asset Management LLP had sold 98,000,000 ordinary shares in the Company on 7 May 2020. On completion of the sale funds managed by Tosca Asset Management LLP held 228,771,927 ordinary shares, representing 50.85% of the issued share capital of the Company. This sale was not completed and on 22 December 2020 the Company was informed that funds managed by Tosca Asset Management LLP held 330,570,719 ordinary shares in the Company at that date.

OML 18

In September 2016, the Company secured an indirect economic interest in Oil Mining Lease 18 ("OML 18"), onshore Nigeria.

The Company undertook a number of steps to effect this purchase. MLPL, a company incorporated in Mauritius of which San Leon Nigeria B.V. has a 40% shareholding, was established as a special purpose vehicle to complete the transaction by purchasing all of the shares in Martwestern, a company incorporated in Nigeria.

Martwestern holds a 50% shareholding in Eroton, a company incorporated in Nigeria and the operator of OML 18, and it also holds an initial 98% economic interest in Eroton. To partly fund the purchase of 100% of the shares of Martwestern, MLPL borrowed US$174.5 million in incremental amounts by issuing loan notes with a coupon of 17% ("Loan Notes"). Midwestern is the 60% shareholder of MLPL and transferred its shares in Martwestern to MLPL as part of the full transaction. Following its placing in September 2016, San Leon became beneficiary and holder of all Loan Notes issued by MLPL and the holder of an indirect economic interest in OML 18. San Leon is also a beneficiary of any dividends that will be paid by MLPL as a 40% shareholder in MLPL but the Loan Notes repayments and any other debt take priority over any dividend payments made to the MLPL shareholders. The economic effect of this structure is that San Leon has an initial indirect economic interest of 10.584%. in OML 18. Shareholders will note this is higher than the percentage interest anticipated by San Leon at the time of the acquisition. There have been no further purchases or payments by San Leon but this revised percentage is based on a reassessment and recalculation of the various parties' interests in OML 18 which has resulted in Martwestern's economic interest in Eroton now standing at 98%.

To date, San Leon has received aggregate payments under the Loan Notes totalling US$198.0 million. An expected credit loss of US$2.0 million was recognised at 31 December 2019. Due to uncertainty around the timing of repayments, the Company has impaired the Loan Notes, netting the expected credit loss of US$2.0 million against the gross amortised value and recognising an impairment charge of US$15.3 million at 31 December 2020. At 31 December 2021 the impairment charge was increased by US$0.9 million to US$16.2 million.

To make payment of principal and interest due under the Loan Notes, MLPL is dependent on Eroton making dividend payments to Martwestern which in turn makes dividend payments to MLPL. MLPL will use the receipt of dividends to make Loan Notes payments to San Leon. There are various undertakings, guarantees and security in place with Eroton, Martwestern and Midwestern with regard to the Loan Notes, as more fully described below, in the event that MLPL is not in a position to pay the Loan Notes from dividends received.

The Loan Notes have been secured with undertakings by both Eroton and Martwestern, including not to take any action within their control which would result in default by MLPL, and to act honestly and in good faith. In addition, to the extent practicable and subject to law, use commercially reasonable efforts to declare dividends in order that MLPL can satisfy its obligations under the Loan Notes instrument.

The shares held by MLPL in Martwestern have also been pledged as security to the obligations under the Loan Notes.

Midwestern and Mart Resources Limited jointly and severally guaranteed the payment of the Loan Notes following a default and to make immediate payment and performance of all obligations to holders of the Loan Notes.

While San Leon is also a beneficiary of any dividends that will be paid by MLPL as a 40% shareholder in MLPL, the Loan Notes repayments must take priority over dividend payments made by MLPL to shareholders with a minimum 65% cash sweep of available funds for a period of four years in order to redeem the Loan Notes.

29. Related party transactions continued

There are shareholders agreements which govern the relationship between Midwestern and San Leon, and Bilton and Martwestern regulating the rights and obligations with respect to MLPL, Martwestern and Eroton. These agreements cover the appointment of Directors and unanimous approval for major decisions.

A Master Services Agreement exists which entitles San Leon Energy Nigeria B.V. to provide rig-related services to Eroton and Midwestern for their activities.

Separately in 2018 San Leon entered into an agreement with Eroton for the provision of subsurface technical and management services with estimated consideration for the services of US$6.0 million until the end of 2022.

Further extensive details can be found on the Company's website which contains a copy of the Admission Document at: http://www.sanleonenergy.com/media/2491705/admission_document_2016.pdf

2017

As a consequence of MLPL not being in receipt of dividends in 2017, MLPL had to enter into a loan during 2017 and subsequently in order to be able to meet its obligations under the Loan Notes and make payments to San Leon. During 2017 San Leon received total payments under the Loan Notes totalling US$39.6 million. All payments during 2017 were received by the due date and in accordance with the terms of the Loan Notes.

2018

During 2018 San Leon received total payments under the Loan Notes totalling US$66.2 million. MLPL also entered into loan agreements with third parties to enable it to make the repayments during 2018.

2019

During 2019 San Leon received total payments under the Loan Notes totalling US$43.2 million. MLPL used loan agreements similar to those entered into in 2018 to continue to make the repayments during 2019.

2020

During 2020 San Leon received total payments under the Loan Notes totalling US$46.5 million. MLPL used loan agreements similar to those entered into in 2018 to continue to make the repayments during 2020.

2021

During 2021 San Leon received total payments under the Loan Notes totalling US$2.2 million. MLPL used loan agreements similar to those entered into in 2018 to continue to make the repayments during 2021.

Key management

Key management is deemed to comprise the Board of Directors. The total remuneration paid to key management was as follows:

	2021 US$'000	2020 US$'000
Salary and emoluments	**2,413**	2,678
Bonuses	**490**	1,172
Social welfare costs	**205**	282
Fees and consulting services	**500**	607
Pension	**331**	99
Benefits	**50**	44
Share-based payment expense	**–**	418
	3,989	5,300

30. Financial instruments and financial risk management

The Group's principal financial instruments comprise trade receivables, other financial assets, trade payables and cash and cash equivalents.

The main purpose of these financial instruments is to provide finance for the Group's operations.

The Group's financial assets and liabilities are classified as:

- Financial liabilities: Amortised costs – trade and other payables as described in Note 19;
- Financial assets: Amortised cost – Financial assets as described in Note 15 and Trade and other receivables as described in Note 17;
- Financial assets: FVTPL – net profit interest as described in Note 15;
- Financial assets: FVOCI – equity instrument – unquoted investments as described in Note 15;

The main risks arising from the Group's financial instruments are foreign currency risk, credit risk, liquidity risk, interest rate risk and capital management. Management reviews and agrees policies for managing each of these risks in a non-speculative manner which are summarised below.

(a) Currency risk

The Group is exposed to foreign currency risk on transactions denominated in a currency other than the relevant functional currency of the entities of the Group which consist of US Dollars, Euro, Sterling and Polish Zloty. The US Dollar is the presentation currency for financial reporting and budgeting. The Group manages its exposure by matching receipts and payments in the same currency and monitoring the residual net cash position. During the years ended 31 December 2021 and 2020, the Group did not utilise either forward currency contracts or other derivatives to manage foreign currency risk.

At 31 December 2021, the Group's principal exposure to foreign currency risk was as follows:

	Denominated in GBP£ US$'000	**Denominated in EUR€ US$'000**	**Denominated in PLN US$'000**
Trade and other receivables	**597**	**7,226**	**49**
Trade and other payables	**(1,266)**	**(2,243)**	**(10)**
Provisions	**–**	**(56)**	**–**
Cash and cash equivalents	**672**	**50**	**102**
Total 2021	**3**	**4,977**	**141**

At 31 December 2020, the Group's principal exposure to foreign currency risk was as follows:

	Denominated in GBP£ US$'000	Denominated in EUR€ US$'000	Denominated in PLN US$'000
Trade and other receivables	810	261	30
Trade and other payables	(427)	(1,861)	(27)
Provisions	–	(56)	–
Cash and cash equivalents	1,332	208	115
Total 2020	1,715	(1,448)	118

30. Financial instruments and financial risk management continued

The US Dollar exchange rates used in the preparation of the financial statements were as follows:

	2021		2020	
	Average rate	**Closing rate**	Average rate	Closing rate
Sterling	**0.727078**	**0.741904**	0.778085	0.732646
Euro	**0.845794**	**0.882924**	0.873668	0.814930
Polish Zloty	**3.862468**	**4.058714**	3.887568	3.715834

Sensitivity analysis

If the US Dollar increased by 1% in value against the above currencies, the Group's profit for the year would decrease and equity at year end would decrease by US$50,668. If the US Dollar decreased by 1% in value against the above currencies, the Group's profit for the year would increase and equity at year end would increase by US$51,175.

(b) Credit risk

Credit risk refers to the risk that any counter-party will default on its contractual obligations resulting in financial loss to the Group.

The Group's financial assets excluding 'Financial assets – Net Profit Interest', see (f) 'Fair values' comprise trade and other receivables, cash and cash equivalents, OML 18 and ELI.

The maximum financial exposure due to credit risk on the Group's financial assets not subject to impairment of IFRS 9, representing the sum of cash and cash equivalents, trade and other receivables and other current assets, as at 31 December 2021 was US$21.2 million (2020: US$20.4 million).

Trade and other receivables

Within trade and other receivables there is no significant exposure to credit risk. The credit risk on amounts receivable from joint operating partners is managed by agreeing budgets in advance with partners and where appropriate collecting any material share of exploration costs from partners in advance of completing the exploration work programme. Amounts in trade and other receivables impaired during 2021 are explained in Note 17 and management believes that the existing sums are still collectable.

OML 18

The OML 18 transaction comprised the US$174.5 million Loan Notes as detailed in Note 15. The credit risk is managed via various undertakings, guarantees, a pledge over shares and the mechanism whereby MLPL prioritises payment of sums due under the Loan Notes. Given the size and quality of the OML 18 oil and gas asset the main credit risk is regarded as the timing of payments by MLPL which is dependent on dividend distributions by Eroton rather than being unable to pay the total quantum due under the Loan Notes. To date Eroton have been unable to make a dividend distribution. Consequently, MLPL had to enter into a loan in 2017 and further loan subsequently, in order to be able to meet its obligations under the Loan Notes and make payments to San Leon.

The credit risk associated with the MLPL Loan Notes is regarded as high and despite quarterly payments being largely received previously to date, however not always on time, and given other considerations, this has led the Company to determine that providing for a loss over the lifetime of the loan is appropriate. The expected credit loss has been calculated with a very high probability that the Potential Transaction will complete, and therefore the Loan Notes will extinguish, and the Company believes that the value of the Potential Transaction is worth at least the value of the Loan Notes. Establishing an expected credit loss over the lifetime of the loan for a single receivable requires significant judgement, as there is limited relevant historical data in the Company, and no obvious reliable market data to benchmark. The factors that were considered in coming to the conclusion of a lifetime expected credit loss provision are explained as follows.

The credit risk of the instrument needs to be evaluated without consideration of collateral. Financial instruments are not considered to have low credit risk because that risk is mitigated by collateral.

30. Financial instruments and financial risk management continued

MLPL is expected to repay all interest and principal due under the loan agreement, however it is currently experiencing short term cash flow issues which makes it challenging to predict when repayments will be made. The increase in credit risk is due to the uncertainty in timing of when Loan Note repayments are received. It does not change the prevailing expectation that the loan will be recovered in full.

In addition, the Directors have reviewed the counterparty credit risk associated with measurement of the credit impairment. This risk has previously been assessed as having increased significantly since initial recognition, and is considered to have increased further during the year ended 31 December 2020 and continued at this level of risk in 2021.

As the asset is determined to be credit-impaired, the lifetime expected credit loss has been presented net against the gross carrying value of the Loan Notes balance on the Statement of Financial Position and remeasured at each reporting date. The MLPL loan asset will continue to be held using the effective interest rate method.

The consideration of credit impairment for this asset is set out in Note 15.

The Directors have considered the impact of Covid-19, the impact on oil price and demand and short term production issues on the Loan Notes and associated credit risk, all of which are tied to the performance of the OML 18 asset. The short term production issues are expected to delay Eroton's ability to return to full production and benefit from the recovery in the oil price, with the overall effect likely to be short term cash flow issues resulting in a delay in receiving distributions from Eroton via MLPL. The Directors have therefore concluded that the risk profile of the Loan Notes has increased.

In the opinion of the Directors there is currently no difference between the carrying amount of the MLPL loan net of the provision and its fair value.

The following table provides information about the exposure to credit risk and expected credit losses of the OML 18 Loan Notes as at 31 December 2021.

Equivalent to Moody's credit rating	Weighted average loss rate	Gross carrying amount US$000	Impairment loss allowance US$000	Credit impaired
Lower than BBB	**16.74%**	**96,497**	**16,153**	**Yes**

The following table provides information about the exposure to credit risk and expected credit losses of the OML 18 Loan Notes as at 31 December 2020.

Equivalent to Moody's credit rating	Weighted average loss rate	Gross carrying amount US$000	Impairment loss allowance US$000	Credit impaired
Lower than BBB	18.17%	84,234	15,309	Yes

ELI

The ELI transaction comprises a US$15.0 million shareholder loan as detailed in Note 15. The credit risk is managed via various undertakings, such as representations, warranties and covenants and the ability for a preferential distribution should some warranties be breached. Given the nature and stage of the asset the main credit risk is regarded as the timing of payments by ELI Malta which is dependent on dividend distributions by ELI Nigeria rather than being unable to pay the total quantum due under the Loan Notes. Currently the Loan Notes are in good standing with the first repayment due before 30 June 2022.

30. Financial instruments and financial risk management continued

As a result of the delay in operations and ELI Loan Notes being overdue, the Directors have determined that there has been a significant increase in credit risk since initial recognition of the ELI Loan Notes, and a provision for the lifetime expected credit loss of the ELI Loan Notes has been recognised. The ELI Loan Notes are not considered to be credit impaired on the basis of the delays in ELI commencing repayment of the loan notes. Establishing an expected credit loss over the lifetime of the loan for a single receivable requires significant judgement, as there is limited relevant historical data in the Company, and no obvious reliable market data to benchmark. The factors that were considered in coming to the conclusion of a lifetime expected credit loss provision are explained as follows.

The credit risk of the instrument needs to be evaluated without consideration of collateral. Financial instruments are not considered to have low credit risk because that risk is mitigated by collateral.

ELI is not considered to be in financial difficulty and is expected to repay all interest and principal due under the loan agreement.

In addition, the Directors have reviewed the counterparty credit risk associated with measurement of the expected credit loss and, this has been assessed as having not increased significantly since initial recognition.

As the asset is not credit-impaired, a lifetime expected credit loss is recorded as a separate provision on the Statement of Financial Position and remeasured at each reporting date. The ELI loan asset will continue to be held using the effective interest rate method.

The consideration of expected credit losses for this asset is set out in Note 15.

The Directors have considered the impact of Covid-19 on the Loan Notes and associated credit risk, and although this has slightly delayed the completion of the pipeline, the Directors do not expect a material effect on the risk profile of the Loan Notes.

In the opinion of the Directors there is no difference between the carrying amount of the MLPL loan and its fair value.

The following table provides information about the exposure to credit risk and expected credit losses of the ELI Loan Notes as at 31 December 2021.

Equivalent to Moody's credit rating	**Weighted average loss rate**	**Gross carrying amount US$000**	**Impairment loss allowance US$000**	**Credit impaired**
Lower than BBB	**3.59%**	**17,821**	**640**	**No**

The following table provides information about the exposure to credit risk and expected credit losses of the ELI Loan Notes as at 31 December 2020.

Equivalent to Moody's credit rating	Weighted average loss rate	Gross carrying amount US$000	Impairment loss allowance US$000	Credit impaired
Lower than BBB	2.51%	15,353	385	No

30. Financial instruments and financial risk management continued

Cash and cash equivalents

The credit risk on cash and cash equivalents held in the Group's bank accounts is considered limited because the counterparties are banks with high credit-ratings assigned by international credit rating agencies. The Group also holds limited funds for day to day operational purposes with Irish banking institutions which are subject to guarantee by the Irish government. The Group's maximum exposure to credit risk is equal to the carrying amount of cash and cash equivalents in its consolidated statement of financial position. The Group does not expect any counterparty to fail to meet its obligations.

Details of the Group's cash deposits, which are all for terms of one month or less are as follows:

	2021 US$'000	2020 US$'000
Euro	**50**	208
Sterling	**672**	1,332
US Dollar	**6,767**	16,855
Polish Zloty	**102**	114
Others	**1**	1
	7,592	18,510

(c) Liquidity risk management

Liquidity risk is the risk that the Group will not have sufficient funds to meet liabilities as they fall due. The Group manages liquidity risk by maintaining adequate cash reserves and by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. Cash forecasts are produced to identify the liquidity requirements of the Group. Surplus cash is placed on deposit in accordance with limits and counterparties agreed by the Board, with the objective to maximise return on funds whilst ensuring that the short-term cash requirements of the Group are maintained.

All cash and cash equivalents held in the Group's bank accounts are due on demand. All trade and other receivables and trade and other payables are due within one month.

The Group's financial liabilities at 31 December 2021 are as follows:

	Less than one year US$'000	**One to two years US$'000**	**Two to five years US$'000**	**Greater than five years US$'000**	**Total US$'000**
Trade and other payables, excluding leases (Note 19)	**4,412**	**–**	**–**	**–**	**4,412**
Lease liability (Note 26)	**340**	**340**	**1,019**	**1,246**	**2,945**
Derivative (Note 20)	**–**	**–**	**–**	**–**	**–**
	4,752	**340**	**1,019**	**1,246**	**7,357**

The Group's financial liabilities at 31 December 2020 are as follows:

	Less than one year US$'000	One to two years US$'000	Two to five years US$'000	Greater than five years US$'000	Total US$'000
Trade and other payables, excluding leases (Note 19)	3,298	–	–	–	3,298
Lease liability (Note 26)	369	369	1,103	1,718	3,559
Derivative (Note 20)	9	–	–	–	9
	3,676	369	1,103	1,718	6,866

The contractual cash flows are equal to the carrying value for trade and other payables. Contractual cash flows from lease liabilities once discounted at the incremental borrowing rate (Note 28) will then equate to the carrying value.

30. Financial instruments and financial risk management continued

The impact of the Covid-19 pandemic, the volatility in oil prices and demand, OPEC quotas, and recent operational challenges being experienced by OML 18 could potentially have an impact on the Company's indirect interest in OML 18 and receipt of Loan Note repayments. However, San Leon is still confident in the operational potential of OML 18 and ultimately recovering the full amount of the outstanding Loan Notes. Any impact on the Company's liquidity risk is expected to be short term and mitigated by the receipt of cash from other sources, such as Loan Note repayments from ELI and services income.

(d) Interest rate risk

The Group and Company's exposure to the risk of changes in market interest rates relates primarily to the Group and Company's holdings of cash and short-term deposits.

It is the Group's policy to place surplus funds on short term deposit in order to maximise interest earned whilst maintaining adequate short-term liquidity for operational requirements.

The OML 18 Loan Notes attract a 17% fixed rate of contractual interest and the ELI Loan Notes attract a 14% fixed rate of contractual interest, both referred to in Note 15, and as a consequence there is no interest rate exposure.

(e) Capital management risk

The Group manage its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust its capital structure, the Group may adjust or issue new shares or raise debt. The capital structure of the Group consists of equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings as disclosed in the consolidated statement of changes in equity.

The Group net debt and equity, and the net debt to equity ratio at 31 December 2021 was as follows:

	2021 US$'000	2020 US$'000
Total liabilities	**8,144**	6,642
Less: cash and cash equivalents	**7,592**	18,510
Adjusted net debt	**552**	(11,868)
Total equity	**176,218**	152,060
Adjusted net debt to equity ratio	**–**	(0.08)

30. Financial instruments and financial risk management continued

(f) Financial assets and liabilities by category

The following table sets out the carrying value of all the financial assets and liabilities held at 31 December 2021:

	Fair value 31 December 2021 US$'000	Carrying amount 31 December 2021 US$'000	Level 1 31 December 2021 US$'000	Level 2 31 December 2021 US$'000	Level 3^ 31 December 2021 US$'000
Financial assets					
OML 18# (Note 15)	**80,344**	**80,344**	–	–	**80,344**
ELI (Note 15)	**17,181**	**17,181**	–	–	**17,181**
Barryroe NPI (Note 15)	**4,291**	**4,291**	–	–	**4,291**
Unquoted shares (Note 15)	–	–	–	–	–
Trade receivables* (Note 17)	**9,860**	**9,860**	–	–	–
Cash and cash equivalents (Note 18)	**7,592**	**7,592**	–	–	–
Other debtors* (Note 17)	**799**	**799**	–	–	–
Financial liabilities					
Trade payables* (Note 19)	**(1,286)**	**(1,286)**	–	–	–
Other creditors* (Note 19)	**(67)**	**(67)**	–	–	–
Derivative (Note 20)	–	–	–	–	–
At 31 December 2021	**118,714**	**118,714**	–	–	**101,816**

The credit risk of the OML 18 loan has been assessed as having significantly increased since initial recognition, affecting the underlying determination of the fair value. Therefore, the carrying amount arising from the application of the effective interest rate method is greater than the fair value.

* *The Group has not disclosed the fair value of financial instruments such as short-term receivables and payables, as it is considered that their carrying amounts are a reasonable approximation of their fair values.*

^ *For detailed disclosures on the valuation techniques of level 3 disclosures see the note referenced above.*

30. Financial instruments and financial risk management continued

During the period ended 31 December 2021, there were no significant changes in the business or economic circumstances that affect the fair value of financial assets and liabilities, no reclassifications and no transfers between levels of the fair value hierarchy used in measuring the fair value of the financial instruments.

The following table sets out the carrying value of all the financial assets and liabilities held at 31 December 2020:

	Fair value 31 December 2020 US$'000	Carrying amount 31 December 2020 US$'000	Level 1 31 December 2020 US$'000	Level 2 31 December 2020 US$'000	Level 3^ 31 December 2020 US$'000
Financial assets					
OML 18 (Note 15)	68,925	68,925	–	–	68,925
Barryroe NPI (Note 15)	14,968	14,968	–	–	14,968
Unquoted shares (Note 15)	6,842	6,842	–	–	6,842
Trade receivables* (Note 17)	2	2	–	–	–
Cash and cash equivalents (Note 18)	18,510	18,510	–	–	–
Other debtors* (Note 17)	732	732	–	–	–
Financial liabilities					
Trade payables* (Note 19)	(719)	(719)	–	–	–
Other creditors* (Note 19)	(36)	(36)	–	–	–
Derivative (Note 20)	(9)	(9)	–	–	(9)
At 31 December 2020	109,215	109,215	–	–	90,726

* *The Group has not disclosed the fair value of financial instruments such as short-term receivables and payables, as it is considered that their carrying amounts are a reasonable approximation of their fair values.*

^ *For detailed disclosures on the valuation techniques of level 3 disclosures see the note referenced above.*

During the period ended 31 December 2020, there were no significant changes in the business or economic circumstances that affect the fair value of financial assets and liabilities, no reclassifications and no transfers between levels of the fair value hierarchy used in measuring the fair value of the financial instruments.

(g) Hedging

At 31 December 2021 and 31 December 2020, the Group had no outstanding contracts designated as hedges.

31. Subsequent events

Change of advisor

On 31 January 2022, it was announced that Brandon Hill is no longer acting as the Company's broker.

Amendment to investment in the Oza field, Nigeria

On 1 September 2020, the Company announced that it had conditionally agreed to provide a US$7.5 million loan to Decklar Resources Limited ("Decklar"), via 10% per annum unsecured subordinated loan notes of Decklar. Decklar is the holder of a Risk Service Agreement with Millenium Oil and Gas Company Limited in relation to Oza. The Company also announced that it would conditionally subscribe for a 15% equity interest in Decklar at nominal value.

San Leon's proposed investment (US$6.75 million) remained in escrow and was to be released upon satisfaction (or waiver) of certain conditions precedent. Despite delays to concluding the transaction documents, Decklar has performed the workover of the Oza-1 well, the results of which have already been announced by San Leon. In summary, the Oza-1 well test has indicated positive oil results from the lowermost zone, encountered gas in the middle zone and oil in the uppermost zone. San Leon has evaluated these results and the San Leon Board has recommended that it proceeds with an investment in Oza. Decklar is in agreement with that strategy and also to fully involve San Leon in future development planning and determining the location of the first new well to be drilled on the Oza Oil Field.

On 27 January 2022, the Company announced it had entered into an amendment to its original agreement with Decklar, the principal terms of which are:

1) San Leon has agreed to proceed with its investment in Oza, waiving the remaining conditions precedent.
2) Of the US$6.75 million of funds held in escrow, US$4.75 million has now been released to Decklar and US$2.0 million has been returned to San Leon pending final completion. San Leon is obliged to either provide a further loan of US$2.0 million to Decklar by 30 April 2022 or, alternatively, accept a pro rata reduction in its shareholding in Decklar.
3) San Leon has agreed to waive its option to invest an additional US$7.5 million in Decklar.

The transactions contemplated by the Subscription Agreement and Binding LOI are subject to final approval by the TSX Venture Exchange.

The Company has previously advanced US$750,000 to Decklar as an initial deposit. As a consequence of the above transactions, upon completion San Leon will be interested in US$5,500,000 of 10% unsecured subordinated Decklar loan notes and a 11.5% equity interest in Decklar, which will be subscribed for at a nominal value of 1,294,118 Nigerian Naira (approximately US$3,400). The key terms of the loan notes remain unchanged from those described in the Company's announcement of 1 September 2020.

In its audited accounts for the year ended 31 December 2020, Decklar reported a loss before tax of US$5.1 million and total assets of US$6.0 million. San Leon will be entitled to one seat on the board of Decklar.

ELI – additional loan

On 15 February 2022, the Company provided further loan of US$2.0 million (the "Loan") to Energy Link Infrastructure (Malta) Limited ("ELI"), the company which owns the Alternative Crude Oil Evacuation System ("ACOES") project. As previously announced, the ACOES is being constructed to provide a dedicated oil export route from the OML 18 oil and gas block located onshore in Nigeria ("OML 18"), comprising a new pipeline from OML 18 and a floating storage and offloading vessel ("FSO"). Once commissioned, the system is expected by the operator of OML 18, Eroton Exploration and Production Company Limited ("Eroton"), to reduce the downtime and allocated pipeline losses currently associated with the Nembe Creek Trunk Line. In addition, it is anticipated that the FSO project will improve overall well uptime at OML 18.

The Loan is a US$2.0 million shareholder loan at a coupon of 14% per annum over four years which is repayable quarterly following a one-year moratorium from the date of investment. The Loan will be accompanied by a transfer to San Leon by Walstrand (Malta) Limited, ELI's largest shareholder, of shares in ELI representing a 2.0% equity interest (the "ELI Equity Interest"), which San Leon will acquire at nominal value, representing a consideration payable of approximately US$91.

31. Subsequent events continued

The Loan will be used by ELI to facilitate a recent funding requirement to allow for completion of the mooring for the floating storage and offloading vessel, which the Board considers to be a critical step in the progression of the ACOES project. Providing loans to Nigerian oil and gas related projects, which are often accompanied by associated equity interests, has been a key part of San Leon's business and strategy in recent years. San Leon has had debt and equity interests in ELI since August 2020 and, given the longer-term ongoing strategic importance of ELI's ACOES project to OML 18, the Board believes that it is important for San Leon to assist ELI with the funding requirements for achieving its key project milestones on a timely basis.

Taken together with San Leon's existing investment in ELI and its conditional purchase of 1.32% of ELI (calculated prior to the newly-issued shares of today's announcement), as announced last year, following completion of the conditional purchase, San Leon's holding in ELI will be 13.32%.

San Leon has now lent a total of US$17.0 million to ELI with a coupon of 14% per annum and from which repayment instalments totalling US$6.0 million are now due. As announced on 9 August 2021, the Company has previously agreed with ELI that, should new investments in ELI be made, then loan repayment instalments would be offset from any investment monies payable to ELI by San Leon under these new arrangements. The Company has elected not to enforce this provision on this occasion, in recognition of the fact that ELI's development is critical to the success of OML 18 and ELI's cash balances at this time are required to progress the overall ACOES project. San Leon will continue to waive repayment instalments due on its loans until the ACOES project has been further progressed and outstanding instalments will continue to accrue interest at 14% per annum.

Under the terms of ELI's senior debt facility, the lender has a charge over all of ELI's assets and, as further security, each shareholder (including San Leon) has pledged their shares to the lender. The ELI shares comprising the ELI Equity Interest will be subject to this pledge. The terms of the pledge are that the ELI shares cannot be transferred or otherwise utilised without the lender's consent.

Proposed transactions and suspension of San Leon shares

On 24 June 2021, the Company announced that it was is in preliminary discussions with Midwestern about acquiring Midwestern's interest in the OML 18 oil and gas block located onshore in Nigeria. At this date, heads of terms for the transaction had not been agreed. The transaction would involve San Leon acquiring the outstanding shares not already owned by San Leon in relation to MLPL. San Leon is not contemplating acquiring Midwestern. San Leon currently owns 40% of MLPL with Midwestern owning the other 60%. In addition, the Company was considering making further debt and equity investments in ELI.

On 8 July 2022, the Company issued an Admission document describing the proposed transaction that will increase its indirect economic interest in Eroton from 39.2% to 98.0% and, taking into account the completion of the Eroton Transaction with Sahara and Bilton, San Leon's initial indirect economic interest in OML 18 would increase from the current 10.58% to 44.1%. In addition to the MLPL transaction, the Company will increase its interest in ELI to c.50% and the loans to ELI from the Company will increase to c.US$48 million. The transactions described in the Admission Document are expected to complete in September 2022 after Nigerian consents for the transactions have been received.

Related party

Midwestern currently holds more than 10% of the Company's ordinary shares. Accordingly, Midwestern is classified as a related party under the AIM Rules and the transactions above in which Midwestern has an interest will therefore be treated as transactions with a related party pursuant to rule 13 of the AIM Rules.

Company statement of financial position

as at 31 December 2021

	Notes	2021 US$'000	2020 US$'000
Assets			
Property, plant and equipment	*A*	**2,276**	2,612
Financial assets – investment in subsidiaries	*B*	**31,539**	31,539
Financial assets	*C*	**4,291**	6,842
		38,106	40,993
Current assets			
Trade and other receivables	*D*	**24,630**	19,992
Financial assets	*C*	**80,344**	68,925
Cash and cash equivalents	*E*	**7,426**	18,145
		112,400	107,062
Total assets		**150,506**	148,055
Equity and liabilities			
Equity			
Called up share capital	*H*	**5,157**	5,157
Share premium account	*H*	**21,077**	21,077
Other undenominated reserve		**638**	638
Special reserve	*J*	**5,024**	5,024
Share-based payments reserve	*J/K*	**12,909**	15,139
Fair value reserve	*J*	**(2,505)**	(2,505)
Retained earnings		**100,476**	97,206
Attributable to equity shareholders		**142,776**	141,736
Non-current liabilities			
Lease liability	*N*	**2,054**	2,428
Derivative	*G*	**–**	9
Deferred tax liabilities	*M*	**445**	245
		2,499	2,682
Current liabilities			
Trade and other payables	*F*	**5,231**	3,637
		5,231	3,637
Total liabilities		**7,730**	6,319
Total equity and liabilities		**150,506**	148,055

The accompanying notes on pages 111 to 132 form an integral part of these financial statements.

Oisín Fanning, Director
8 July 2022

Julian Tedder, Director

Company statement of changes in equity

for the year ended 31 December 2021

2020	Share capital reserve US$'000	Share premium reserve US$'000	Other un-denom-inated reserve US$'000	Special reserve US$'000	Currency translation reserve US$'000	Share based payment reserve US$'000	Fair value reserve US$'000	Retained earnings US$'000	Total equity US$'000
Balance as at 1 January 2020	5,172	21,077	623	5,024	–	14,292	(2,505)	140,867	184,550
Total comprehensive income									
Loss for the year	–	–	–	–	–	–	–	(9,946)	(9,946)
Total comprehensive income for the year	–	–	–	–	–	–	–	(9,946)	(9,946)
Transactions with owners recognised directly in equity									
Contributions by and distributions to owners									
Dividend payment (Note I)	–	–	–	–	–	–	–	(33,251)	(33,251)
Share buybacks (Note H)	(15)	–	15	–	–	–	–	(507)	(507)
Share-based payment	–	–	–	–	–	417	–	–	417
Effect of share options modified	–	–	–	–	–	473	–	–	473
Effect of options expired	–	–	–	–	–	(43)	–	43	–
Total transactions with owners	(15)	–	15	–	–	847	–	(33,715)	(32,868)
Balance at 31 December 2020	5,157	21,077	638	5,024	–	15,139	(2,505)	97,206	141,736

2021	Share capital reserve US$'000	Share premium reserve US$'000	Other un-denom-inated reserve US$'000	Special reserve US$'000	Currency translation reserve US$'000	Share based payment reserve US$'000	Fair value reserve US$'000	Retained earnings US$'000	Total equity US$'000
Balance as at 1 January 2021	5,157	21,077	638	5,024	–	15,139	(2,505)	97,206	141,736
Total comprehensive income									
Profit for the year	–	–	–	–	–	–	–	1,040	1,040
Total comprehensive income for the year	–	–	–	–	–	–	–	1,040	1,040
Transactions with owners recognised directly in equity									
Contributions by and distributions to owners									
Dividend payment (Note I)	–	–	–	–	–	–	–	–	–
Share buybacks (Note H)	–	–	–	–	–	–	–	–	–
Share-based payment	–	–	–	–	–	–	–	–	–
Effect of share options modified	–	–	–	–	–	–	–	–	–
Effect of options expired	–	–	–	–	–	(2,230)	–	2,230	–
Total transactions with owners	–	–	–	–	–	(2,230)	–	2,230	–
Balance at 31 December 2021	**5,157**	**21,077**	**638**	**5,024**	**–**	**12,909**	**(2,505)**	**100,476**	**142,776**

The accompanying notes on pages 111 to 132 form an integral part of these financial statements.

Company statement of cash flows

for the year ended 31 December 2021

	Notes	2021 US$'000	2020 US$'000
Cash flows from operating activities			
Profit/(loss) for the year		**1,040**	(9,946)
Adjustments for:			
Depreciation	*A*	**274**	358
Finance income		**(12,131)**	(16,646)
Finance expense		**129**	131
Share-based payments charge		**–**	890
Impairment/(reversal of impairment) of investment in subsidiaries and amounts due from Group undertakings		**(704)**	4,020
Fair value movements in financial assets	*C*	**2,551**	(4,073)
Expected credit losses	*C*	**(1,447)**	13,307
Foreign exchange		**(71)**	76
Income tax expense		**204**	1,937
Decrease/(increase) in trade and other receivables		**105**	(926)
Increase/(decrease) in trade and other payables		**1,610**	(968)
Tax paid		**45**	–
Net cash outflow from operating activities		**(8,395)**	(11,840)
Cash flows from investing activities			
Advances to subsidiary companies		**(4,049)**	(19,010)
OML 18 Loan Notes principal payments received	*C*	**–**	35,285
OML 18 Loan Notes interest payments received	*C*	**2,150**	11,215
Interest and investment income received		**–**	47
Lease – prepaid rental	*N*	**–**	96
Net cash inflow from investing activities		**(1,899)**	27,633
Cash flows from financing activities			
Dividends paid	*I*	**–**	(33,251)
Share buybacks		**–**	(507)
Repayment of lease liability – principal	*N*	**(227)**	(211)
Interest paid	*N*	**(129)**	(131)
Net cash outflow from financing activities		**(356)**	(34,100)
Net decrease in cash and cash equivalents		**(10,650)**	(18,307)
Effect of foreign exchange fluctuation on cash and cash equivalents		**(69)**	64
Cash and cash equivalents at start of year	*E*	**18,145**	36,388
Cash and cash equivalents at end of year	*E*	**7,426**	18,145

The accompanying notes on pages 111 to 132 form an integral part of these financial statements.

General information and basis of preparation

San Leon Energy plc ("the Company") is a company incorporated and domiciled in the Republic of Ireland. The Company's ordinary shares are admitted to trading on the AIM Market of the London Stock Exchange. The registered office address is 2 Shelbourne Buildings, Crampton Avenue, Shelbourne Road, Ballsbridge, Dublin 4.

Statement of compliance

The individual financial statements of the Company (Company financial statements) have been prepared in accordance with IFRS as adopted by the EU and as applied in accordance with the Companies Act 2014 which permits a Company that publishes its Company and Group financial statements together, to take advantage of the exemption in Section 304 of the Companies Act 2014, from presenting to its members its Company statement of comprehensive income and related notes that form part of the approved Company financial statements. The IFRS adopted by the EU as applied by the Company and the Group in the preparation of these financial statements are those that were effective for accounting periods commencing on or before 1 January 2021 or were early adopted as indicated below.

Basis of preparation

The Company financial statements are prepared on the historical cost basis, except for financial assets (net profit interests, quoted shares and unquoted shares), which are carried at fair value, and equity settled share option awards and warrants which are measured at grant date fair value.

Going concern

The Directors have prepared a detailed cash flow forecast for the Group for the period from 1 June 2022 to 31 December 2023. The principal assumptions underlying the cash flow forecast and the availability of finance to the Group are as follows:

- The proposed reorganisation to consolidate Midwestern Oil and Gas Company Limited's ("Midwestern") shareholdings in: i) the Company; and ii) Midwestern Leon Petroleum Limited ("MLPL") into a single shareholding in the Company (the "Potential Transaction") completes in the second half of 2022. The Potential Transaction also comprises, inter alia, a proposed consolidation of Midwestern's indirect debt and equity interests in Energy Link Infrastructure (Malta) Limited ("ELI") with those of the Company, as well as further new debt and new and existing equity investments to be made by San Leon in ELI ("Further ELI Investments");
- Eroton Exploration and Production Company Limited ("Eroton") acquires an additional 18% interest in OML 18 from two of the other partners in OML 18, thereby taking Eroton's interest in OML 18 to 45%. This is subject, inter alia, to: i) agreeing documentation; ii) finalising bank financing; and iii) receiving the relevant regulatory consents in Nigeria;
- A loan of US$50.0 million is secured to finance the Potential Transaction;
- Elimination of the MLPL loan notes on completion of the Potential Transaction;
- Under an Asset Management Agreement with Eroton, San Leon receives US$0.5 million per month for technical and financial advisory services following completion of the Potential Transaction;
- Repayments from ELI of loan notes of US$37.6 million during 2022 and 2023;
- Repayment from Eroton of a debt from the provision of services under a technical services contract of US$3.0 million during 2022; and
- A further loan of US$2.5 million is given to Decklar Petroleum Limited in relation to its Oza investment as per the option agreement.

Due to the Potential Transaction not having completed at the date of the Annual Report there is an inherent material uncertainty that completion will not occur as anticipated.

The Group has modelled various other scenarios assuming the Potential Transaction does not complete and given the Group's well understood cost base, the principal uncertainty if the Potential Transaction does not complete relates to the quantum and timing of receipt of interest and capital repayments on the Loan Notes with MLPL, which would remain in place, and the loan Notes with ELI.

General information and basis of preparation continued

It was originally envisaged that the MLPL Loan Note payments due to the Group would be sourced by MLPL from the receipt of dividends through its indirect interest in Eroton via Martwestern. These dividends have not been received to date and consequently MLPL has entered into loan arrangements in order to be able to make Loan Note payments to the Company. In the absence of the dividend payments, MLPL will be reliant on further advances under the loan arrangement and in turn being able to make Loan Note payments to the Company. The Company has no obligation arising from the loan arrangements entered into by MLPL.

The loan repayments due from ELI were due to start in 2021 but have been delayed due to operational readiness of the FSO and ACOES project being delayed. The Directors have a reasonable expectation that ELI will be revenue generating imminently with the commencement of barging operations, and while loan repayments have been delayed, they should commence in the second half of 2022.

Due to the uncertainty on timing of future cash flows the MLPL and ELI loan notes have both been credit impaired.

In the ultimate downside scenario where no repayments are received from MLPL and ELI, the US$50.0 million loan secured by the Company to fund the Potential Transaction can be drawn to facilitate completion of the further ELI Investments, with the remaining balance being used for general corporate purposes. In this scenario the working capital requirements of the Group can be met for the 12-month period from the date of approval of the financial statements, although a reduction to administrative costs is required in 2023, which the Directors believe is achievable and within their control.

However, while the working capital requirements of the Group can be met for the 12-month period, the Directors believe that the continued viability of the Group and Company into the future is dependent on the completion of the Proposed Transaction. As such, the completion of the Proposed Transaction creates significant uncertainty upon the Group and Company's ability to continue as a going concern beyond the 12-month period. The Directors' have concluded that this represents a material uncertainty which may cast significant doubt upon the Group and Company's ability to continue as a going concern and that, therefore, the Group and Company may be unable to continue realising its assets and discharging its liabilities in the normal course of business.

Having taken all the above factors into account, the directors continue to believe it is appropriate to prepare these financial statements on a going concern basis, noting the material uncertainty that exists on the completion of the Potential Transaction and its impact on the Company and Group's ability to continue as a going concern. The financial statements do not include any adjustments that would be necessary if the group were unable to continue as a going concern.

Accounting policies

The Company's accounting policies are aligned with the Group accounting policies as set out within the Group Financial Statements, with the addition of the following:

Financial fixed assets – Investment in subsidiaries are held at cost less any accumulated provision for impairment losses.

Critical accounting judgements and key sources of estimation uncertainty

The critical accounting judgements and key sources of estimation uncertainty used in applying the Company's accounting policies are the presumption of going concern and recoverability of investments and amounts due from subsidiaries (Notes B and D below).

A. Property, plant and equipment

Company	Leased assets US$'000	Office equipment US$'000	Motor vehicles US$'000	Total US$'000
Cost				
At 1 January 2020	3,281	548	82	3,911
Transfer to other company within the Group	(231)	–	–	(231)
At 31 December 2020	3,050	548	82	3,680
Transfer to other company within the Group	–	–	(82)	(82)
At 31 December 2021	**3,050**	**548**	**–**	**3,598**
Depreciation				
At 1 January 2020	329	514	2	845
Charge for the year	330	12	16	358
Transfer to other company within the Group	(135)	–	–	(135)
At 31 December 2020	524	526	18	1,068
Charge for the year	261	11	2	274
Transfer to other company within the Group	–	–	(20)	(20)
At 31 December 2021	**785**	**537**	**–**	**1,322**
Net book values				
At 31 December 2021	**2,265**	**11**	**–**	**2,276**
At 31 December 2020	2,526	22	64	2,612

B. Financial assets – investments in subsidiaries

	2021 US$'000	2020 US$'000
Investments in subsidiary undertakings at cost:		
Balance at beginning and end of year	**31,539**	31,539

San Leon Energy Nigeria B.V. holds the equity interest in MLPL. As per Note 13(i), the Group identified potential impairment indicators with respect to the equity interest. These same indicators are also impairment indicators for the Company's holding in San Leon Energy B.V. The same tests as detailed in Note 13(i) were carried out to assess the carrying value of the Company's investment in its subsidiary and the analysis identified that the carrying value of the investment in MLPL is not impaired.

At 31 December 2021, the Company had the following principal subsidiaries, all of which are wholly owned through holding all of the issued ordinary shares of the entities:

Name	Registered office	Principal activities	Country of incorporation
Directly held:			
San Leon Energy B.V.	de Ronge 16 1852 XB Heiloo The Netherlands	Holding company	Netherlands
San Leon Services Limited	12 Castle Street St. Helier, Jersey JE2 3RT	Service company	Jersey
San Leon Energy Nigeria B.V.	de Ronge 16 1852 XB Heiloo The Netherlands	Holding company	Netherlands
San Leon Energy Financing Limited	2 Shelbourne Buildings Crampton Avenue Shelbourne Road Ballsbridge, Dublin 4	Financing company	Ireland
San Leon Holdings Limited	27/28 Eastcastle Street London, England W1W 8DH	Holding company	England
Indirectly held:			
San Leon Nigeria Limited	No. 801, Eden Heights 6 Elsie Femi Pearse Street Victoria Island, Lagos, Nigeria	Service company	Nigeria
San Leon Energy (UK) Limited	27/28 Eastcastle Street London, England W1W 8DH	Service company	England
San Leon Energy Eli Limited	27/28 Eastcastle Street London, England W1W 8DH	Holding company	England
San Leon Energy Oza Limited	27/28 Eastcastle Street London, England W1W 8DH	Holding company	England

A full list of subsidiaries will be annexed to the Annual Report of the Company to be filed with the Irish Registrar of Companies.

C. Financial assets

	OML 18 (i) US$'000 Amortised cost	Barryroe 4.5% net profit interest (ii) US$'000 FVTPL	Total US$'000
Cost/valuation			
At 1 January 2020	114,254	2,769	117,023
Finance income	16,480	–	16,480
Loan Notes receipts – principal	(35,285)	–	(35,285)
Loan Notes receipts – interest	(11,215)	–	(11,215)
Lifetime ECL – credit-impaired #	(15,309)	–	(15,309)
Fair value movement, Income statement	–	4,073	4,073
At 31 December 2020	68,925	6,842	75,767
Finance income	12,122	–	12,122
Loan Notes receipts – principal	–	–	–
Loan Notes receipts – interest	(2,150)	–	(2,150)
Impairment reversal – (credit-impaired assets) #	1,447	–	1,447
Fair value movement, Income statement	–	(2,551)	(2,551)
At 31 December 2021	**80,344**	**4,291**	**84,635**

 # See OML18 ECL table below

Expected Credit Loss – OML 18

	Performing 12-month ECL	Higher risk assets not credit impaired Lifetime ECL	Credit impaired Lifetime ECL	Total
At 1 January 2020	–	(2,002)	–	(2,002)
Impact of modification	–	(5,857)	–	(5,857)
Net remeasurement of loss allowance	–	(7,450)	–	(7,450)
Transfer to lifetime ECL – credit-impaired	–	15,309	(15,309)	–
At 31 December 2020	–	–	(15,309)	(15,309)
Impact of modification	–	–	1,503	1,503
Net remeasurement of loss allowance	–	–	1,447	1,447
Effective interest on ECL	–	–	(3,794)	(3,794)
At 31 December 2021	**–**	**–**	**(16,153)**	**(16,153)**

C. Financial assets continued

	OML 18 (i) US$'000 Amortised cost	Barryroe 4.5% net profit interest (ii) US$'000 FVTPL	Total US$'000
Book value at 31 December 2021	**80,344**	**4,291**	**84,635**
Current	80,344	–	80,344
Non-current	–	4,291	4,291
Book value at 31 December 2020	68,925	6,842	75,767
Current	68,925	–	68,925
Non-current	–	6,842	6,842

Unquoted shares: Ardilaun Energy Limited (iii) and Amedeo Resources Limited (iv) have a US$Nil value.

(i) OML 18
In September 2016, the Company secured an indirect economic interest in OML 18, onshore Nigeria.

The Company undertook a number of steps to effect this purchase. MLPL, a company incorporated in Mauritius of which San Leon Nigeria B.V. has a 40% shareholding, was established as a special purpose vehicle to complete the transaction by purchasing all of the shares in Martwestern, a company incorporated in Nigeria. Martwestern holds a 50% shareholding in Eroton, a company incorporated in Nigeria and the operator of OML 18, and Martwestern also holds an initial 98% economic interest in Eroton. The economic effect of this structure is that San Leon has an initial indirect economic interest of 10.584% in OML 18. Shareholders will note that this is higher than the percentage interest anticipated by San Leon at the time of the acquisition in 2016. There have been no further purchases or payments by San Leon but this revised percentage is based on a reassessment and recalculation of the various parties' interests in OML 18.

To partly fund the purchase of 100% of the shares of Martwestern, MLPL borrowed US$174.5 million in incremental amounts by issuing loan notes with an annual coupon of 17% ("Loan Notes") and effective interest rate of 25%, as noted below. Midwestern Oil and Gas Company Limited ("Midwestern") is the 60% shareholder of MLPL and transferred its shares in Martwestern to MLPL as part of the full transaction. Following its placing in September 2016, San Leon became beneficiary and holder of all Loan Notes issued by MLPL and the holder of an indirect economic interest in OML 18. San Leon is due to be repaid the full amount of the US$174.5 million plus the 17% coupon once certain conditions have been met and using an agreed distribution mechanism. Through its wholly owned subsidiary, San Leon Nigeria B.V., the Company is also a beneficiary of any dividends that will be paid by MLPL as a 40% shareholder in MLPL but the Loan Notes repayments must take priority over any dividend payments made to the MLPL shareholders.

The fair value assessment of the Loan Notes on acquisition was calculated as follows:

	Total US$'000
Total consideration	188,419
Fair value of Loan Notes attributable to equity investment #	(30,889)
Net fair value of Loan Notes	157,530
Arrangement fees	(5,500)
Additions to Financial Assets in 2016 including accrued interest at date of acquisition	152,030

 # The fair value of Loan Notes attributable to the equity investment is calculated using a discount factor of management's estimate of a market rate of interest of 8% above the coupon rate of 17% over the term of the Loan Notes, giving an effective interest rate of 25%.

C. Financial assets continued

The key information relevant to the fair value of the Loan Notes on the date they were initially recognised is as follows:

Valuation technique	Significant unobservable inputs*	Inter-relationships between the unobservable inputs and fair value measurements
Discounted cash flows	• Discount rate 25% based on a market rate of interest of 8% above the coupon rate of 17% • MLPL ability to generate cash flows for timely repayment • Loan Notes are repayable in full by 31 December 2021 (2020: 31 December 2021)	Nil

** On initial recognition. Under the conditional payment waiver the Loan Notes are expected to fall due on 30 June 2022. Other unobservable inputs are considered appropriate at 31 December 2021.*

The business model for the MLPL loan is to hold to collect. The Loan Notes are accounted for at amortised cost.

The credit risk is managed via various undertakings, guarantees, a pledge over shares and the mechanism whereby MLPL prioritises payment of sums due under the Loan Notes. These are described further in Note 29 of the Group Financial Statements. Given the size and quality of the OML 18 oil and gas asset the main credit risk is regarded as the timing of payments by MLPL which is dependent on dividend distributions by Eroton rather than being unable to pay the total quantum due under the Loan Notes. To date Eroton have been unable to make a dividend distribution. Consequently, MLPL had to enter into a loan in 2017 and subsequently, in order to be able to meet its obligations under the Loan Notes and make payments to San Leon.

On 6 April 2020, the Company entered into an Agreement with MLPL, amending the timing of the remaining payment of the Loan Notes Instrument. At the date of the Agreement, the remaining outstanding balance on the par value was US$82.1 million (accounted for as US$79.5 million under IFRS). Under the terms of the Agreement, US$10.0 million was due to be repaid on or before 6 October 2020, with the balance of the Loan Notes receivable payable in three quarterly instalments, commencing in July 2021 and completing by December 2021. Following the Agreement the outstanding loan continued to have an annual coupon rate of 17% and an effective interest rate of 25% per annum. All other material terms of the Loan Notes Instrument remained unchanged. The Agreement with MLPL was accounted for as a modification of the financial asset which did not give rise to derecognition. A loss of US$2.5 million was recognised in respect of the change in present value of the revised cash flows discounted at the original effective interest rate.

On 24 June 2021 the Company announced that it had entered into preliminary discussions with Midwestern in connection with the potential acquisition of the shares of MLPL owned by Midwestern (the "Potential Transaction"). The Company expects that the Potential Transaction, if agreed, would include the elimination of the Loan Notes. In connection with these discussions, on 6 July 2021 the Company agreed a conditional payment waiver in respect of the amounts under the Agreement that fell due in July 2021 and within 30 days of expiry of the conditional payment waiver. Under the terms of the conditional payment waiver amounts payable under the Agreement would fall due 90 days following expiry. Interest continued to accrue on the outstanding principal of the Loan Notes at 17%.

The conditional payment waiver was originally due to expire on the earlier of 31 August 2021 or the date an agreement was reached with Midwestern to effect the Potential Transaction. The conditional payment waiver was subsequently extended to include payments due up to December 2021.

The conditional payment waiver was accounted for as a modification of the financial asset which did not give rise to derecognition. The amortised cost of the Loan Notes immediately prior to the modification was US$74.8 million (being a gross asset of US$92.6 million and expected credit loss provision of US$17.8 million. A net modification loss of US$3.2 million was recognised in respect of the change in present value of the revised cash flows discounted at the original effective interest rate.

During 2021 San Leon received total payments under the Loan Notes of US$2.2 million (2020: US$46.5 million). The payments received during 2021 represent principal of US$Nil (2020: US$35.3 million) and interest of US$2.2 million (2020: US$11.2 million) on the Loan Notes repaid. As at 31 December 2021 there was US$96.5 million in principal and interest (2020: US$84.2 million) due under the Loan Notes. As at 31 December 2021, US$2.9 million was outstanding from the US$10.0 million due to be repaid on 6 October 2020.

C. Financial assets continued

The Directors of San Leon have considered the credit risk of the Loan Notes at 31 December 2021 and 31 December 2020. Due to the inability of MLPL to make dividend distributions, the Directors continue to consider that the credit risk has significantly increased since initial recognition. At 31 December 2019 and subsequently a provision for the lifetime expected credit loss of the Loan Notes had been recognised.

In addition, the Directors have reviewed the counterparty credit risk associated with measurement of the expected credit loss. This was assessed as having increased significantly since initial recognition.

Management are still confident in the operational potential of OML 18 and ultimately recovering the full amount of the outstanding Loan Notes, however due to the above issues management are unable to determine the timing of future cash flows and for this reason the Loan Notes are now considered credit impaired.

The Loan Notes are unique assets for which there is no directly comparable market data. Repayments of the Loan Notes are expected to be made from the underlying cash flows that support MLPL or, if the Potential Transaction is agreed, the Loan Notes will be taken into account and eliminated as part of the overall structure agreed. The Directors have considered the credit risk of MLPL, in particular in light of the Covid-19 pandemic and the resultant impact on the oil price and demand, as well as ongoing short term production issues. The Loan Notes continue to be considered to be impaired. An impairment has been estimated based on a forward-looking analysis where a range of outcomes has been considered taking into account the size and timing of the contractual cash flows, the risk of the Potential Transaction being delayed or not agreed, risk of late payments and the risk of default leading to less than full recovery of the amounts due in respect of the Loan Notes. The Directors have considered the possible scenarios and used their judgement to estimate a weighted average outcome of these scenarios. The impairment is calculated as the difference between the present value of the weighted average of possible outcomes (discounted at the effective interest rate of the Loan Notes) and the present value of the contractual cash flows.

As at 31 December 2021 the Loan Notes are considered credit impaired. The expected credit loss of US$16.2 million (2020: US$15.3 million) has been presented net as part of the amortised cost of the Loan Notes. The expected credit loss has been calculated with a very high probability that the Potential Transaction will complete, and therefore the Loan Notes will extinguish, and the Company believes that the value of the Potential Transaction is worth at least the value of the Loan Notes.

See Subsequent events (Note 31 of the Group Financial Statements) for further information on the discussions with Midwestern about acquiring Midwestern's indirect interest in the OML 18.

**Refer to Alternate Performance Measures on page 133 for full reconciliation of IFRS numbers and Alternative Performance Measures.*

(ii) Barryroe – 4.5% Net Profit Interest

SLE holds a 4.5% Net Profit Interest in the Barryroe ("Barryroe NPI") oil field at fair value through profit and loss under IFRS 9. In 2019 a market-based valuation approach was adopted, using the price of the publicly listed shares of Providence Resources plc ("Providence") (operator and holder of an 80% interest in the Barryroe oil field) as its basis. The Directors believe the markets assessment of the current risks and uncertainties of the project have been reflected within the share price of Providence at year end, and it is therefore appropriate to use this to update their valuation.

Given the latest announcements, the Directors have reviewed the modelling assumptions and consider it reasonable and appropriate to continue to use a market based approach to decrease the Barryroe carrying value by US$2.6 million (2020: gain of US$4.0 million) to US$4.2 million to reflect their estimate of the impact of these risks to the future cash flows on the value of the asset.

The key information relevant to the fair value of the Barryroe 4.5% net profit interest is as follows:

Valuation technique	Significant unobservable inputs	Inter-relationships between the unobservable inputs and fair value measurements
Market based approach using share price of Operator (Providence)	• Estimated value of NPI as percentage of total field NPV 9.5% (2020: 9.5%)	The estimated fair value would increase/(decrease) if: • US Dollar exchange rate increased/(decreased)

C. Financial assets continued

(iii) Ardilaun Energy Limited

As part of the consideration for the sale of Island Oil & Gas Limited to Ardilaun Energy Limited ("Ardilaun") in 2014 Ardilaun agreed to issue shares equivalent to 15% of the issued share capital of Ardilaun to San Leon. The original fair value of the 15% interest in Ardilaun was based on a market transaction in Ardilaun shares.

The Directors have considered the carrying value of this interest at 31 December 2021 and given the length of time to obtain Irish government approval for the transaction, the Directors feel it is prudent to continue to carry the 15% of Ardilaun shares still to be issued to San Leon at a value of US$Nil (2020: US$Nil).

(iv) Amedeo Resources Limited

At 31 December 2021, the Company holds 213,512 ordinary shares at a market value of US$Nil (2020: US$Nil). The value of the investment was written down to nil in 2018 due to the shares of Amedeo Resources plc being de-listed.

D. Trade and other receivables

	2021 US$'000	2020 US$'000
Amounts falling due within one year:		
Amounts owed by group undertakings (i)	**125,658**	122,417
Expected credit loss on amounts owed by group undertakings (i)	**(102,750)**	(104,240)
Net amounts owed by group undertakings	**22,908**	18,177
Corporation tax refundable	**–**	48
VAT and other taxes refundable	**45**	28
Other debtors	**793**	726
Prepayments	**884**	1,013
	24,630	19,992

(i) At 31 December 2021, the Company is owed US$125.7 million (2020: US$122.4 million) by its subsidiaries in respect of funds advanced to them and expenses discharged by the Company on their behalf. An impairment provision of US$102.8 million (2020: US$104.2 million) against these debts has been provided as at the year end. The credit-impaired balances relate to the funding of historical investments in subsidiaries to hold assets and businesses which have been abandoned or discontinued in prior periods and from which no economic value is expected. The expected credit loss on remaining loans to subsidiaries is not considered material.

E. Cash and cash equivalents

	2021 US$'000	2020 US$'000
Cash and cash equivalents	**673**	11,392
Solicitor client account (i)	**6,753**	6,753
	7,426	18,145

(i) Solicitor client account at 31 December 2021 represents monies held on behalf of the Company by Dentons ACAS-Law in relation to the Oza deal, detailed in Subsequent Events (Note 31).

F. Trade and other payables

	2021 US$'000	2020 US$'000
Current		
Trade payables	**1,264**	187
Amounts owed to group undertakings (i)	**2,390**	2,413
PAYE/PRSI	**88**	136
Payroll and pensions	**629**	–
Other creditors	**–**	2
Accruals	**520**	566
Current portion of lease	**340**	333
	5,231	3,637

(i) Amounts owed to Group undertakings are interest free and repayable on demand (Note O).

G. Derivative

	2021 US$'000	2020 US$'000
Non-current		
Derivative	**–**	9
	–	9

The key inputs into the valuation model are as follows:

Valuation technique	Significant unobservable inputs	Inter-relationships between the unobservable inputs and fair value measurement
Black-Scholes model	Option strike price of £0.30 to £0.45 up to date options expired in the year (2020: £0.30 to £0.45)	The estimated fair value would increase/(decrease) if:
	Average maturity of 0 to 1 year up to date options expired in the year (2020: 0 to 1 year)	The share price increased/(decreased)
	Risk-free interest rate of 0.055% up to date options expired in the year (2020: 0.055%)	Sterling exchange rate increased/(decreased)
	Share price volatility of 62% up to date options expired in the year (2020: 62%)	The risk free interest rate increased/(decreased)

The derivative was in relation to options and warrants that were issued in connection with financing provided to the Company between 2016 and 2018.

H. Share capital

Rights and obligations attaching to the Ordinary Shares

The Company has no securities in issue conferring special rights with regards control of the Company. All Ordinary Shares rank pari passu, and the rights attaching to the Ordinary Shares (including as to voting and transfer) are as set out in the Company's Articles of Association ("Articles").

	Number of New Ordinary shares €0.01 each	Number of Deferred Ordinary shares €0.0001 each	Authorised Equity US$'000
Authorised equity			
At 1 January 2020	2,847,406,025	–	177,475
At 31 December 2020	2,847,406,025	–	177,475
At 31 December 2021	**2,847,406,025**	**–**	**177,475**

Issued, called up and fully paid:

	Number of New Ordinary shares €0.01 each	Number of Deferred Ordinary shares €0.0001 each	Share capital US$'000	Share premium US$'000
At 1 January 2020	451,303,014	–	5,172	21,077
Share buybacks	(1,389,988)	–	(15)	–
At 31 December 2020	449,913,026	–	5,157	21,077
At 31 December 2021	**449,913,026**	**–**	**5,157**	**21,077**

See Consolidated Statements of Changes in Equity on pages 54 to 55.

Share buyback programme

On 22 January 2020 the Company announced that it had completed the Buyback Programme. Under the Buyback Programme, the Company repurchased 5,709,101 Ordinary Shares at an aggregate value of £1,570,085.49. Following cancellation of the final shares repurchased, the total number of Ordinary Shares in issue with voting rights was 449,913,026.

I. Dividends paid

No dividends were declared in 2021. In May 2020, the Company returned a special dividend to its shareholders of £0.06 per share, totalling US$33.3 million (£27.0 million).

J. Reserves

The Statement of Changes in Equity outlines the movement in reserves during the year. Further details of these reserves are set out below:

Share based payments reserve

The share-based payments reserve comprises the fair value of all share options which have been charged over the vesting period, net of the amount relating to share options which have expired, been cancelled and have vested.

Fair value reserve

The fair value reserve comprises the cumulative net change in the fair value of financial assets measured at Fair Value through Other Comprehensive Income until the assets are derecognised.

Special reserve

Pursuant to a capital reduction in 2019 the Company undertook to credit US$5,024,260 to a special reserve. This special reserve is not a distributable reserve and must remain in place until such time as obligations in respect of certain guarantees given by the company have lapsed or become unenforceable.

K. Share-based payments

Prior to 31 December 2012, the Group had one share-based payment scheme for executives and senior employees of the Group. In accordance with the provisions of the plan, as approved by shareholders at a previous general meeting, executives and senior employees may be granted options to purchase ordinary shares.

Each share option converts into one ordinary share of San Leon Energy plc on exercise and options do not carry rights to dividends nor voting rights. Options may be exercised at any time from the date of vesting to the date of their expiry. The options vest in tranches subject to the achievement of certain service and non-market performance conditions. Market conditions in relation to the achievement of share price trading levels also apply in the case of certain options granted to the Directors, further details of which are set out in the Directors' Report.

During the first quarter of 2013, this scheme was replaced by a more formal Share Option Plan, which governs all future awards of share options made by San Leon. All employees, and certain Directors and consultants, may from time to time be eligible to receive a discretionary bonus to be awarded in the form of options over San Leon Ordinary shares. Historic options in respect of San Leon shares will continue to be governed by the terms and conditions set out in the historic share-based payments scheme.

The Group's equity share options are equity settled share-based payments as defined in IFRS 2: Share Based Payments. The total share-based payment charge for the year has been calculated based on grant date fair value obtained using an option pricing model with a discount for market conditions applied based on a Monte Carlo simulator analysis where appropriate. The charge for the year is US$Nil (2020: US$891,263) includes the charge for options issued to the Directors of US$Nil (2020: US$418,048) and shares to be issued to Directors of US$Nil (2020: US$Nil).

K. Share-based payments continued

The movement on outstanding share options and warrants during the year was as follows:

	2021		2020	
	Number of options/ warrants	**Weighted average exercise price**	Number of options/ warrants	Weighted average exercise price
Balance at beginning of the financial year	**41,221,627**	**£0.397**	40,559,075	£0.400
Granted during the financial year	**–**	**–**	1,000,000	£0.450
Modified during the financial year *	**–**	**–**	–	£0.393
Expired or cancelled during the financial year	**(8,560,000)**	**£0.445**	(337,448)	£0.592
Exercised during the financial year	**–**	**–**	–	–
Balance at end of the financial year	**32,661,627**	**£0.412**	41,221,627	£0.397
Exercisable at end of the financial year	**32,661,627**	**£0.412**	41,221,627	£0.397

The range of exercise prices of outstanding options/warrants at year end is £0.25 to £0.45 (2020: £0.25 to £0.45).

* On 26 February 2020 the Company repriced 1,500,000 options from £0.45 to £0.35, the expiry date of these options was also extended from 26 February 2020 by 4 years to 26 February 2024. The resulting charge for the year was US$326,581.

* On 2 October 2020 the Company extended the expiry date of 2,222,222 options by 5 years to 2 October 2025. This resulted in a charge for the year of US$146,635.

The weighted average remaining contractual life for options/warrants outstanding at 31 December 2021 is 1.79 years (2020: 2.94 years).

During the current year no options were exercised (2020: Nil).

The following table illustrates the number, exercise price and expiry date of share options and warrants remaining at year end.

Type	Number	Exercise price	Year of expiration
Options	6,250,000	£0.45	2022
Options	6,625,000	£0.45	2023
Warrants	10,000,000	£0.25	2023
Warrants	4,939,405	£0.45	2023
Options	1,500,000	£0.35	2024
Options	125,000	£0.45	2024
Options	2,222,222	£0.45	2025
Options	1,000,000	£0.45	2028
Total	**32,661,627**		

K. Share-based payments continued

The following table lists the fair value of options granted and the inputs to the models used to calculate the grant date fair values of awards granted in 2021 and 2020:

	2021	2020
Weighted average fair value of options granted during year	N/a	£0.25
Weighted average share price of options at date of grant	N/a	£0.39
Dividend yield	N/a	0.00%
Exercise price	N/a	£0.45
Expected volatility	N/a	72%
Risk-free interest rate	N/a	0.55%
Expected option life	N/a	7 years
Expected early exercise %	N/a	0%
Model used	N/a	Black-Scholes

The expected life used in the model is based on the expectation of management attaching to the option and behavioural considerations and is not necessarily indicative of exercise patterns that may occur. Expected volatility is based on an analysis of the historical volatility of San Leon Energy plc shares and comparable listed entities. The fair value is measured at the date of grant. There are no conditions attached to the options.

L. Commitments and contingencies

(a) Lease obligation commitments

Cash commitments under lease obligations as a lessee (Note N) are as follows:

	Total 2021 US$'000	Total 2020 US$'000
Payable:		
Within one year	340	369
Between one and five years	1,359	1,472
Over five years	1,246	1,718
	2,945	3,559

(b) Island Oil & Gas Limited Guarantee

The Company has a Guarantee in respect of the decommissioning liabilities of Island (Seven Heads) Limited, a subsidiary of Island Oil & Gas Limited ("Island"). In the event that Island are unable to pay the decommissioning liabilities, under the Guarantee, the Company could be liable for any amounts Island does not pay.

M. Deferred tax

	Assets		Liabilities		Net	
	2021 US$'000	2020 US$'000	**2021 US$'000**	2020 US$'000	**2021 US$'000**	2020 US$'000
Financial assets – net profit Interest	**–**	–	**(572)**	(1,416)	**(572)**	(1,416)
Financial assets – other	**175**	175	**–**	–	**175**	175
Interest not taxable until received	**–**	–	**(48)**	–	**(48)**	–
Tax losses recognised	**–**	996	**–**	–	**–**	996
	175	1,171	**(620)**	(1,416)	**(445)**	(245)

N. Leases

Statement of Financial Position

	2021 US$'000	2020 US$'000
Right of use asset (included within Property, plant and equipment)		
Property leases		
At 1 January	**2,526**	2,952
Additions	**–**	–
Transfer to other company within the Group	**–**	(96)
Depreciation charge for the period	**(261)**	(330)
Closing net carrying amount	**2,265**	2,526
Lease liability		
Property leases		
At 1 January	**2,761**	2,834
Payments – principal	**(227)**	(211)
Payments – interest	**(129)**	(131)
Currency translation adjustment	**(140)**	138
Interest	**129**	131
Closing net carrying amount	**2,394**	2,761
Current	**340**	333
Non-current	**2,054**	2,428

Income Statement

	2021 US$'000	2020 US$'000
Right of use asset (included within Property, plant and equipment)		
Property leases		
Depreciation charge	**261**	330
Interest expense	**129**	131
Total	**390**	461

O. Related party transactions

Transactions with subsidiaries and associates

The Company has a related party relationship with its subsidiaries and associates. The Company and its subsidiaries and associates, in the ordinary course of business, enter into various sales, purchase and service transactions with joint operations in which the Group has a material interest. These transactions are under terms that are no less favourable to the Group than those arranged with third parties.

At 31 December 2021, the Company is owed US$125.7 million (2020: US$122.4 million) by its subsidiaries in respect of funds advanced to them and expenses discharged by the Company on their behalf. An impairment provision of US$102.8 million (2020: US$104.2 million) against these debts has been provided as at the year end. The credit-impaired balances relate to the funding of historical investments in subsidiaries to hold assets and businesses which have been abandoned or discontinued in prior periods and from which no economic value is expected. The expected credit loss on remaining loans to subsidiaries is not considered material. The Company owes US$2.4 million (2020: US$2.4 million) to subsidiaries in respect of funds received by and services provided to the Company.

	US$'000
Loss allowance at 31 December 2020	104,240
Expected credit losses released	(1,490)
Loss allowance at 31 December 2021	**102,750**

P. Financial instruments and financial risk management

The Company's principal financial instruments comprise trade receivables, other financial assets, trade payables and cash and cash equivalents.

The main purpose of these financial instruments is to provide finance for the Company's operations.

The Company's financial assets and liabilities are classified as:

- Financial liabilities: Amortised costs – trade and other payables as described in Note F;
- Financial assets: Amortised cost – Financial assets as described in Note C and Trade and other receivables as described in Note C;
- Financial assets: FVTPL – net profit interest as described in Note C; and
- Financial assets: FVOCI – equity instrument – unquoted investments as described in Note C.

The main risks arising from the Company's financial instruments are foreign currency risk, credit risk, liquidity risk, interest rate risk and capital management. Management reviews and agrees policies for managing each of these risks in a non-speculative manner which are summarised below.

(a) Currency risk

The Company is exposed to foreign currency risk on transactions denominated in a currency other than the relevant functional currency which is US Dollars. The US Dollar is the presentation currency for financial reporting and budgeting. The Company manages its exposure by matching receipts and payments in the same currency and monitoring the residual net cash position. During the years ended 31 December 2021 and 2020, the Company did not utilise either forward currency contracts or other derivatives to manage foreign currency risk.

P. Financial instruments and financial risk management continued

At 31 December 2021, the Company's principal exposure to foreign currency risk was as follows:

	Denominated in GBP£ US$'000	Denominated in EUR€ US$'000
Trade and other receivables	594	3,589
Trade and other payables	(947)	(3,878)
Cash and cash equivalents	663	9
Total 2021	**310**	**(280)**

At 31 December 2020, the Company's principal exposure to foreign currency risk was as follows:

	Denominated in GBP£ US$'000	Denominated in EUR€ US$'000
Trade and other receivables	808	3,398
Trade and other payables	(225)	(2,908)
Cash and cash equivalents	1,134	172
Total 2020	1,717	662

The US Dollar exchange rates used in the preparation of the financial statements were as follows:

	2021		2020	
	Average rate	**Closing rate**	Average rate	Closing rate
Sterling	**0.727078**	**0.741904**	0.778085	0.732646
Euro	**0.845794**	**0.882924**	0.873668	0.814930

Sensitivity analysis

If the US Dollar increased by 1% in value against the above currencies, the Company's profit for the year would decrease and equity at year end would decrease by US$27,034. If the US Dollar decreased by 1% in value against the above currencies, the Company's profit for the year would increase and equity at year end would increase by US$27,304.

(b) Credit risk

Credit risk refers to the risk that any counter-party will default on its contractual obligations resulting in financial loss to the Company.

The Company's financial assets excluding 'Financial assets – Net Profit Interest', see (f) 'Fair values' comprise trade and other receivables, cash and cash equivalents and OML 18.

The maximum financial exposure due to credit risk on the Company's financial assets not subject to impairment of IFRS 9, representing the sum of cash and cash equivalents, trade and other receivables and other current assets, as at 31 December 2021 was US$32.1 million (2020: US$38.1 million).

Trade and other receivables

Within trade and other receivables there is no significant exposure to credit risk. The credit risk on amounts receivable from joint operating partners is managed by agreeing budgets in advance with partners and where appropriate collecting any material share of exploration costs from partners in advance of completing the exploration work programme. Amounts in trade and other receivables impaired during 2021 are explained in Note D and management believes that the existing sums are still collectable.

P. Financial instruments and financial risk management continued

OML 18

The OML 18 transaction comprised the US$174.5 million Loan Notes as detailed in Note C. The credit risk is managed via various undertakings, guarantees, a pledge over shares and the mechanism whereby MLPL prioritises payment of sums due under the Loan Notes. Given the size and quality of the OML 18 oil and gas asset the main credit risk is regarded as the timing of payments by MLPL which is dependent on dividend distributions by Eroton rather than being unable to pay the total quantum due under the Loan Notes. To date Eroton have been unable to make a dividend distribution. Consequently, MLPL had to enter into a loan in 2017 and further loan subsequently, in order to be able to meet its obligations under the Loan Notes and make payments to San Leon.

The credit risk associated with the MLPL Loan Notes is regarded as high and despite quarterly payments being largely received previously to date, however not always on time, and given other considerations, this has led the Company to determine that providing for a loss over the lifetime of the loan is appropriate. The expected credit loss has been calculated with a very high probability that the Potential Transaction will complete, and therefore the Loan Notes will extinguish, and the Company believes that the value of the Potential Transaction is worth at least the value of the Loan Notes. Establishing an expected credit loss over the lifetime of the loan for a single receivable requires significant judgement, as there is limited relevant historical data in the Company, and no obvious reliable market data to benchmark. The factors that were considered in coming to the conclusion of a lifetime expected credit loss provision are explained as follows.

The credit risk of the instrument needs to be evaluated without consideration of collateral. Financial instruments are not considered to have low credit risk because that risk is mitigated by collateral.

MLPL is expected to repay all interest and principal due under the loan agreement, however it is currently experiencing short term cash flow issues which makes it challenging to predict when repayments will be made. The increase in credit risk is due to the uncertainty in timing of when Loan Note repayments are received. It does not change the prevailing expectation that the loan will be recovered in full.

In addition, the Directors have reviewed the counterparty credit risk associated with measurement of the credit impairment. This risk has previously been assessed as having increased significantly since initial recognition, and is considered to have increased further during the year ended 31 December 2020 and continued at this level of risk in 2021.

As the asset is determined to be credit-impaired, the lifetime expected credit loss has been presented net against the gross carrying value of the Loan Notes balance on the Statement of Financial Position and remeasured at each reporting date. The MLPL loan asset will continue to be held using the effective interest rate method.

The consideration of credit impairment for this asset is set out in Note C.

The Directors have considered the impact of Covid-19, the impact on oil price and demand and short term production issues on the Loan Notes and associated credit risk, all of which are tied to the performance of the OML 18 asset. The short term production issues are expected to delay Eroton's ability to return to full production and benefit from the recovery in the oil price, with the overall effect likely to be short term cash flow issues resulting in a delay in receiving distributions from Eroton via MLPL. The Directors have therefore concluded that the risk profile of the Loan Notes has increased.

In the opinion of the Directors there is currently no difference between the carrying amount of the MLPL loan net of the provision and its fair value.

The following table provides information about the exposure to credit risk and expected credit losses of the OML 18 Loan Notes as at 31 December 2021.

Equivalent to Moody's credit rating	Weighted average loss rate	Gross carrying amount US$000	Impairment loss allowance US$000	Credit impaired
Lower than BBB	**16.74%**	**96,497**	**16,153**	**Yes**

P. Financial instruments and financial risk management continued

The following table provides information about the exposure to credit risk and expected credit losses of the OML 18 Loan Notes as at 31 December 2020.

Equivalent to Moody's credit rating	Weighted average loss rate	Gross carrying amount US$000	Impairment loss allowance US$000	Credit impaired
Lower than BBB	18.17%	84,234	15,309	Yes

Cash and cash equivalents

The credit risk on cash and cash equivalents held in the Company's bank accounts is considered limited because the counterparties are banks with high credit-ratings assigned by international credit rating agencies. The Company also holds limited funds for day to day operational purposes with Irish banking institutions which are subject to guarantee by the Irish government. The Company's maximum exposure to credit risk is equal to the carrying amount of cash and cash equivalents in its Company statement of financial position. The Company does not expect any counterparty to fail to meet its obligations.

	2021 US$'000	2020 US$'000
Euro	**9**	172
Sterling	**663**	1,134
US Dollar	**6,753**	16,838
Others	**1**	1
	7,426	18,145

(c) Liquidity risk management

Liquidity risk is the risk that the Company will not have sufficient funds to meet liabilities as they fall due. The Company manages liquidity risk by maintaining adequate cash reserves and by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. Cash forecasts are produced to identify the liquidity requirements of the Company. Surplus cash is placed on deposit in accordance with limits and counterparties agreed by the Board, with the objective to maximise return on funds whilst ensuring that the short-term cash requirements of the Company are maintained.

All cash and cash equivalents held in the Company's bank accounts are due on demand. All trade and other receivables and trade and other payables are due within one month.

The financial liabilities at 31 December 2021 are as follows:

	Less than 1 year US$'000	One to two years US$'000	Two to five years US$'000	Greater than five years US$'000	Total US$'000
Trade and other payables, excluding lease (Note F)	4,891	–	–	–	4,891
Lease liability (Note L)	340	340	1,019	1,246	2,945
Derivative (Note G)	–	–	–	–	–
	5,231	**340**	**1,019**	**1,246**	**7,836**

P. Financial instruments and financial risk management continued

The financial liabilities at 31 December 2020 are as follows:

	Less than 1 year US$'000	One to two years US$'000	Two to five years US$'000	Greater than five years US$'000	Total US$'000
Trade and other payables, excluding lease (Note F)	3,304	–	–	–	3,304
Lease liability (Note L)	369	369	1,103	1,718	3,559
Derivative (Note G)	9	–	–	–	9
	3,682	369	1,103	1,718	6,872

The contractual cash flows are equal to the carrying value for trade and other payables. Contractual cash flows from lease liabilities once discounted at the incremental borrowing rate (Note N) will then equate the carrying value.

The impact of the Covid-19 pandemic, the volatility in oil prices and demand, OPEC quotas, and recent operational challenges being experienced by OML 18 could potentially have an impact on the Company's indirect interest in OML 18 and receipt of Loan Note repayments. However, San Leon is still confident in the operational potential of OML 18 and ultimately recovering the full amount of the outstanding Loan Notes. Any impact on the Company's liquidity risk is expected to be short term and mitigated by the receipt of cash from other sources, such as services income.

(d) Interest rate risk

The Company's exposure to the risk of changes in market interest rates relates primarily to the Company's holdings of cash and short-term deposits.

It is the Company's policy to place surplus funds on short term deposit in order to maximise interest earned whilst maintaining adequate short-term liquidity for operational requirements.

The Loan Notes referred to in Note C attract a 17% fixed rate of contractual interest and as a consequence there is no interest rate exposure.

(e) Capital management risk

The Company manage its capital 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. The Company manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust its capital structure, the Company may adjust or issue new shares or raise debt. The capital structure of the Company consists of equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings as disclosed in the company statement of changes in equity.

P. Financial instruments and financial risk management continued

(f) Financial assets and liabilities by category

The following table sets out the carrying value of all the financial assets and liabilities held at 31 December 2021:

	Fair value 31 December 2021 US$'000	Carrying amount 31 December 2021 US$'000	Level 1 31 December 2021 US$'000	Level 2 31 December 2021 US$'000	Level 3^ 31 December 2021 US$'000
Financial assets					
OML 18# (Note C)	80,344	80,344	–	–	80,344
Barryroe NPI (Note C)	4,291	4,291	–	–	4,291
Cash and cash equivalents (Note E)	7,426	7,426	–	–	–
Net amounts owed by Group undertakings* (Note D)	22,908	22,908	–	–	–
Other debtors* (Note D)	793	793	–	–	–
Financial liabilities					
Amounts owed to Group undertakings* (Note F)	(2,390)	(2,390)	–	–	–
Trade payables* (Note F)	(1,264)	(1,264)	–	–	–
Other creditors* (Note F)	–	–	–	–	–
Derivative (Note G)	–	–	–	–	–
At 31 December 2021	**112,108**	**112,108**	**–**	**–**	**84,635**

 # There has been no change to the assumptions underlying the determination of fair value of the OML 18 loan since initial recognition. Therefore, the carrying amount arising from the application of the effective interest rate method approximates to the fair value.

** The Company has not disclosed the fair value of financial instruments such as short-term receivables and payables, as it is considered that their carrying amounts are a reasonable approximation of their fair values.*

^ For detailed disclosures on the valuation techniques of level 3 disclosures see the note referenced above.

During the period ended 31 December 2021, there were no significant changes in the business or economic circumstances that affect the fair value of financial assets and liabilities, no reclassifications and no transfers between levels of the fair value hierarchy used in measuring the fair value of the financial instruments.

Notes to the Company financial statements

for the year ended 31 December 2021 – continued

P. Financial instruments and financial risk management continued

The following table sets out the carrying value of all the financial assets and liabilities held at 31 December 2020:

	Fair value 31 December 2021 US$'000	Carrying amount 31 December 2021 US$'000	Level 1 31 December 2021 US$'000	Level 2 31 December 2021 US$'000	Level 3^ 31 December 2021 US$'000
Financial assets					
OML 18 (Note C)	68,925	68,925	–	–	68,925
Barryroe NPI (Note C)	6,842	6,842	–	–	6,842
Cash and cash equivalents (Note E)	18,145	18,145	–	–	–
Net amounts owed by Group undertakings* (Note D)	18,177	18,177	–	–	–
Other debtors* (Note D)	726	726	–	–	–
Financial liabilities					
Amounts owed to Group undertakings* (Note F)	(2,413)	(2,413)	–	–	–
Trade payables* (Note F)	(187)	(187)	–	–	–
Other creditors* (Note F)	(2)	(2)	–	–	–
Derivative (Note G)	(9)	(9)	–	–	(9)
At 31 December 2020	110,204	110,204	–	–	75,758

** The Company has not disclosed the fair value of financial instruments such as short-term receivables and payables, as it is considered that their carrying amounts are a reasonable approximation of their fair values.*

^ For detailed disclosures on the valuation techniques of level 3 disclosures see the note referenced above.

During the period ended 31 December 2020, there were no significant changes in the business or economic circumstances that affect the fair value of financial assets and liabilities, no reclassifications and no transfers between levels of the fair value hierarchy used in measuring the fair value of the financial instruments.

(g) Hedging

At 31 December 2021 and 31 December 2020, the Company had no outstanding contracts designated as hedges.

Alternative performance measures

The Group monitors the par value of the Loan Notes, which is a non-IFRS measure.

The Group believes that the disclosure of the par value of the Loan Notes will assist investors in evaluating the performance of the underlying Loan Notes. Given that these cash metrics are used by management, they also give the investor an insight into how the Group management review and monitor the Loan Notes on an ongoing basis.

A reconciliation from the value of the OML 18 Loan Notes under IFRS 9 and the par value is provided below:

	IFRS 9 Amortised Cost Excluding ECL US$'000	IFRS 9 Adjustment US$'000*	Par value US$'000
Loan Notes at 31 December 2019	114,254	4,494	118,748#
Interest accrued on Loan Notes (1 January 2020 to 6 April 2020)	6,783	(1,886)	4,897
Cash receipts (1 January 2020 to 6 April 2020)	(41,500)	–	(41,500)
Loan Notes at 6 April 2020	79,537	2,608	82,145
Interest accrued on Loan Notes (7 April 2020 to 31 December 2020)	9,697	595	10,292
Cash receipts (7 April 2020 to 31 December 2020)	(5,000)	–	(5,000)
Loan Notes at 31 December 2020	**84,234**	**3,203**	**87,437^**
Interest accrued on Loan Notes (1 January 2021 to 31 December 2021)	14,413	(449)	13,964
Cash receipts (1 January 2021 to 31 December 2021)	(2,150)	–	(2,150)
Loan Notes at 31 December 2021	**96,497**	**2,754**	**99,251~**
Interest accrued on Loan Notes (1 January 2022 to 24 June 2022)	5,999	697	6,696
Cash receipts (1 January 2022 to 24 June 2022)	(300)	–	(300)
Loan Notes at 24 June 2022	**102,196**	**3,451**	**105,647<**

** The effective interest rate is 25% and the coupon rate is 17% (Note 15).*
 # Made up of capital balance of US$108.4 million and accrued interest of US$10.3 million.
^ Made up of capital balance of US$82.1 million and accrued interest of US$5.3 million.
~ Made up of capital balance of US$82.1 million and accrued interest of US$17.2 million.
< Made up of capital balance of US$82.1 million and accrued interest of US$23.5 million.

A reconciliation from the value of the ELI Loan Notes under IFRS 9 and the par value is provided below:

	IFRS 9 Amortised Cost Excluding ECL US$'000	IFRS 9 Adjustment US$'000*	Par value US$'000
Loan Notes at 31 December 2020	15,353	399	15,752^
Interest accrued on Loan Notes (1 January 2021 to 31 December 2021)	2,468	(228)	2,240
Cash receipts (1 January 2021 to 31 December 2021)	–	–	–
Loan Notes at 31 December 2021	**17,821**	**171**	**17,992~**
Interest accrued on Loan Notes (1 January 2022 to 24 June 2022)	1,315	(48)	1,267
Cash receipts (1 January 2022 to 24 June 2022)	–	–	–
Loan Notes at 24 June 2022	**19,136**	**123**	**19,259<**

** The effective interest rate is 16% and the coupon rate is 14% (Note 15).*
^ Made up of capital balance of US$15.0 million and accrued interest of US$0.8 million.
~ Made up of capital balance of US$15.0 million and accrued interest of US$3.0 million.
< Made up of capital balance of US$15.0 million and accrued interest of US$4.3 million.

Corporate information

Directors

Mutiu Sunmonu
(Non-Executive Chairman)

Oisín Fanning
(Chief Executive Officer)

Joel Price
(Chief Operating Officer)

Alan Campbell
(Commercial and Business Development Director) (resigned 7 May 2021)

Lisa Mitchell
(Chief Financial Officer)
(resigned 29 October 2021)

Julian Tedder
(Chief Financial Officer)
(appointed 1 December 2021)

Adekolapo Ademola
(Non-Executive Director)

John Brown
(Non-Executive Director)
(appointed 7 May 2021)

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Alan Campbell

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Registered Number

237825

Glossary

2C	Best estimate of Contingent Resources
1P	Proven Reserves
2P	Proven plus Probable Reserves
3P	Proven plus Probable plus Possible Reserves
AIM	The London Stock Exchange's AIM market
AIM Rules	AIM Rules for Companies
BCF or bcf	Billion cubic feet
Bilton	Bilton Energy Limited
B.V.	Dutch private limited company
BVI	British Virgin Islands
CPR	Competent Person's Report
Eroton	Eroton Exploration and Production Company Limited
US$'000	United States Dollars, thousands
ESM	European Stability Mechanism
FSO	Floating Storage and Offloading
Group	San Leon and its subsidiaries
LLP	Limited liability partnership
Loan Notes	$174.5 million principal amount of 17% fixed rate loan notes acquired by San Leon pursuant to the amended and restated loan note instrument dated September 30, 2016 executed and issued by Midwestern Leon Petroleum Limited
Ltd or limited	A private limited company incorporated under the laws of England and Wales, Scotland, certain Commonwealth countries and Ireland
m	Metres
'm	Millions
Martwestern	Martwestern Energy Limited
Midwestern	Midwestern Oil and Gas Company Limited
MLPL	Midwestern Leon Petroleum Limited
MSA	Master Services Agreement
mmbbL	Million barrels
Nomad	A company that has been approved as a nominated advisor for AIM by the London Stock Exchange
NNPC	Nigerian National Petroleum Corporation
NPI	Net Profit Interest
PLC	A publicly held company
San Leon or the Company	San Leon Energy PLC
SEDA	Standby Equity Distribution Agreement
Sp. z o.o.	Polish limited liability company
Sp. z o.o. sp.k	Polish LLP
SPV	Special purpose vehicle

Conversion

The following table sets forth certain standard conversions from Standard Imperial Units to the International System of Units (or metric units).

To convert from	To	Multiply by
mcf	Cubic metres	28.174
Cubic metres	Cubic feet	35.494
bbls	Cubic metres	0.159
Cubic metres	bbls	6.290
Feet	Metres	0.305
Metres	Feet	3.281
Miles	Kilometres	1.609
Kilometres	Miles	0.621
Acres	Hectares	0.405
Hectares	Acres	2.471

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