THE UK SHAREHOLDERS' ASSOCIATION INVESTIGATES AIM COMPANIES' ANNUAL REPORTS

Ithaca Energy plc – Number 100 in Investors Chronicle 'AIM 100' April 2015

Annual Report & Accounts for year ended 31 August 2015

Ithaca Energy ignored two separate requests for a printed copy of its annual report, one via a telephone call to the company and one via email. This ignorance of investor requirements is particularly disturbing for a private shareholder. We found it necessary to review the online report instead, which of course has its disadvantages.

Ithaca is a dual listed company, being traded on both Canadian stock exchanges and the AIM. Although essentially a Canadian company, by virtue of its main listing, its main business is in the North Sea, hence the AIM listing, but the presentation and frequency of reporting is geared to North American requirements.

The company provides the following documents, which we describe with our comments. While some investors will find the compartmentalisation useful, others will find it unhelpful, but the overall consequence is that there is repetition and therefore unduly long reporting which the company should try harder to avoid.

- Management Discussion and Analysis
    - The company's business is clearly explained as follows: *"Ithaca's goal is to generate sustainable long term shareholder value by building a highly profitable 25k boepd North Sea oil and gas company"*. That is simple to understand. Currently it produces around 10k-11k boepd, so it is evidently looking to grow substantially.
    - This clearly explains the business (oil and gas production and exploration – mainly in North Sea, hence UK listing) and the strategy – although there is no timescale on the strategy.
- The Risk Factors analyse the effect of changes in the oil price and there is hedging in place. However, even in more recent reports, they don't look at what will happen if prices stay down at or below $50 per barrel once the hedging has expired. We examine this question below.
- Financial Statements
    - The information on directors' and employees' pay and conditions is very sketchy and nowhere near UK requirements for a listed company. No reference could be found to the actual number of employees.
    - The directors don't have many shares, which may be a concern for some but at least that information is visible.
- Annual Information report:
    - The Annual Information Form is 81 pages. Now we are really getting into the analysis of acreages, reserves, currencies, risk factors, details about the directors, etc.
- Presentation
    - The Presentation is 16 slides. It is a summary of key financial data, including some graphs, photos and geological diagrams. At last a simple understandable presentation with forward looking commentary.
- Webcast
    - Webcast. This is the full presentation above with commentary of the presentation slides. A very informative piece. The CEO and CFO give the presentation including an operations update and outlook for the future.

Information about the principal identified risk is not all that it should be. The company is visibly cutting back on capital expenditure and states that it is aiming for a cost of $30 per barrel to keep cash flow positive. However, as is sometimes the case upon analysis, the figures don't match the words. The company says it is mitigating the current low oil price by rationalising and reducing the cost base, including both Capex and operating costs, but while it has reduced capital expenditures, the reported results show an operating cost increase of 50% on reduced revenue. Some of this is accounted for in notes (an exceptional item of £12m) but that is only a small part of the increase. The company claims to be at peak net debt, but it carries a substantial debt load that seems likely to increase its financing costs, which might require it to make a significant cut in operating cost to meet its objective, about which nothing is said.

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