IOG Infrastructure Limited

Annual Report and Audited Financial Statements

For the year ended 31 December 2018

Company Number 07632910

IOG Infrastructure Limited

Annual report and audited financial statements for the year ended 31 December 2018

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Country of incorporation
United Kingdom

Legal form
Private limited company with share capital

Directors
Andrew Hockey
Mark Hughes

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United Kingdom

Company number
07632910

IOG Infrastructure Limited

Strategic Report
for the year ended 31 December 2018

The Directors present their Strategic Report, Directors' Report and the audited financial statements of IOG Infrastructure Limited (the 'Company' or 'IOGI') for the year ended 31 December 2018. All amounts are shown in Pounds Sterling, unless otherwise stated.

STRATEGIC REPORT

Review of activities and business review

The Company completed the acquisition ('SPA1') of the decommissioned Thames Pipeline offshore infrastructure ('PL370') from Perenco UK Limited, Tullow Oil SK Limited and Spirit Energy Resources, together the 'Sellers', on 16 April 2018.

The Company has since conducted an Intelligent Pigging Programme ('IPP'), miscellaneous pipeline surveys, pipeline integrity tests, a Crawler Pig operation and a successful pipeline Hydrotest during the year.

Progress continued through 2H 2018 toward signing the Sale and Purchase Agreement ('SPA2') for the acquisition of the Bacton Thames Pipeline Reception Facility with the Sellers.

The Company had previously been dormant and did not trade prior to 16 April 2018.

IOGI holds PL370 at 100% ownership.

Thames Pipeline PL370

The acquisition of PL370 from the Sellers (Sale and Purchase Agreement, SPA1) completed on 16 April 2018.

On this date, the pre-acquisition costs for both PL370 and the associated PL370 Bacton Terminal onshore infrastructure ('Bacton'), previously held as a prepayment in the books of the parent company, Independent Oil & Gas plc ('IOG'), were brought across to the Company. Also, on this date, the Initial Thames Pipeline Decommissioning Security Amount of £500k was paid to Perenco UK Limited. The Company is now the 100% owner, user, holder and operator of the pipeline under the Pipeline Works Authority ('PWA').

The *MV Fugro Galaxy* mobilised in late January 2018 and as part of its work programme carried out route surveys along the Thames Pipeline.

Preparation for the IPP commenced on 20 February 2018 with onshore mechanical preparation work at Bacton. The main IPP work took place in May 2018 and early June 2018. Three 12-meter pipeline sections were cut 60km offshore and retrieved to surface and indicated the pipeline to be in extremely good condition. Two successful pipeline pressure tests confirmed pipeline integrity and initial 60km gauge pigging runs from Bacton to the offshore tie-in point were successfully executed. The initial IPP run gathered insufficient data due to technical malfunction with the pig and an alternative strategy was planned and presented to the UK Health & Safety Executive ('HSE') governing body.

In September 2018, a crawler pig run was completed from Bacton to circa 1km offshore, to demonstrate the viability of this nearshore element of the line, and the viability of the whole line, and the export route was subsequently confirmed by a 150 bar 24 hour hydrotest completed on 23 September 2018.

Progress continued through 2H 2018 toward signing the Sale and Purchase Agreement (SPA2) for the Thames Reception Facility at Bacton with the Sellers.

Other 2018 capital costs associated with the PL370 acquisition include potential tie-in studies (offshore → onshore), the Crown Estate lease (from 16 April 2018) associated with the 12-mile onshore boundary (of which PL370 lies in situ), applicable borrowing costs and other directly attributable overheads and expenses. There have been no costs capitalised and directly incurred regarding SPA2, and the Thames Reception plant facility at Bacton.

Key Performance Indicators

The Directors consider, at the present time, qualitative non-financial information to be the KPIs of the Company.

Qualitative non-financial performance is measured directly through pipeline integrity testing and the development of licence interests, aligned for use alongside PL370, towards successful throughput and transportation of oil and gas production.

Future KPIs will include qualitative pipeline operations' performance together with quantitative revenue streams obtained via hydrocarbon throughput and associated tariff income.

Principal Risks and Uncertainties

The Company operates in the Southern North Sea ('SNS') oil and gas industry, an environment subject to a range of inherent risks and uncertainties. Being at an early stage, the prime risks to which the Company is subject are: access to sufficient funding to continue its operations; changes in both costs and reserves estimates for those assets proposed to utilise PL370 for its transportation and throughput needs; changes in forward commodity prices for such assets; and the successful acquisition and development of oil and gas assets in the region.

Key risks and associated mitigation are set out below.

Investment Returns: Management seeks to generate shareholder returns though investments in a portfolio of commercial transportation and tariff agreements including from both assets within the IOG group of companies and external oil and gas business entities. Delivery of this business model carries several key risks.

Risk	Mitigation
Market support may be eroded obstructing fundraising and lowering the parent company share price	• Management regularly communicates its strategy to shareholders • Focus is placed on building a PL370 gas production portfolio in the SNS region capable of delivering regular news flow and offering continuing prospectivity
General market conditions may fluctuate hindering delivery of the Company's business plan	• Management aims to retain adequate working capital and secure finance facilities sufficient to ride out downturns should they arise
Each oil and gas asset carry's its own risk profile and no outcome can be certain	• Management aims to avoid over-exposure to individual development and production assets and to identify the associated risks objectively
Company may not be able to raise funds to exploit its assets or continue as a going concern	• Management is pursuing specific and appropriate plans for funding the planned recommissioning of PL370 and is confident in a successful outcome • Progress is ongoing with these potential funding routes and on 1 April 2019 the parent company announced fund raising of £16.6m (gross) as well as a concurrent amendment to the term of £7.1m of London Oil & Gas Limited ('LOG') loan notes. As set out in Note 1 the Company will require additional funding within the next twelve months in order to meet its working capital needs and development plans.
Company has given security over its assets to LOG.	IOG Group management is in discussion with the Administrators of LOG who have acknowledged the importance of developing the Company's assets in order to return value to London Capital and Finance ('LCAF') bond holders. The LOG shareholders have made public announcements of their intention to continue to support the Company and that the Company's ongoing operations are not adversely affected by the LOG Administration.

Principal Risks and Uncertainties (continued)

Licensing & Regulation: The Company may be unable to meet its licence and regulatory obligations.	
Risk	**Mitigation**
The PL370 operating licence may be revoked	• Continue proactive communications with the UK Oil and Gas Authority ('OGA') to determine licence status and meet requirements

Operations: Operations may not go to plan, leading to damage, pollution, cost overruns and poor outcomes.	
Risk	**Mitigation**
The pipeline may be damaged giving rise to pollution and throughput problems	• Thorough evaluations and inspections are conducted under OGA regulations
Operations may take far longer or cost more than expected	• Management applies rigorous budget control • Adequate working capital is retained to cover reasonable eventualities • Exposure selectively mitigated through a suitable farm-out transaction
Resource estimates may be misleading curtailing actual tariffs recovered	• The Company deploys qualified personnel • Regular third-party reports are commissioned • A prudent range of possible outcomes are considered within the planning process

Personnel: The Company relies upon a pool of experienced and motivated personnel to identify and execute successful investment strategies	
Risks	**Mitigation**
Key personnel may be lost to other companies	• The parent company's Remuneration Committee regularly evaluates incentivisation schemes to ensure they remain competitive
Difficulty in attracting the necessary talent as the Company moves into development of its projects	• The Company continues to review and adopt attractive packages for both staff and contractors

Principal Risks and Uncertainties (continued)

Commercial environment: World and regional markets continue to be volatile with fluctuations and infrastructure access issues that might hinder the Company's business success	
Risk	**Mitigation**
Volatile commodity prices mean that the Company cannot be certain of the future value of its assets and associated services to the industry	• Price mitigation strategies may be employed at the point of major capital commitment • Gas may be transported under long-term commercial contracts reducing exposure to short term fluctuations • Budget planning considers a range of tariff pricing
Brexit	• The Company does not see Brexit having a significant impact on its business model – the Company's services will be indigenous, and the UK gas market is not forecast to be significantly directly impacted by an exit from the EU, being a substantial core element of UK primary energy demand. However, access to overseas personnel and equipment may be affected to a greater or lesser extent, depending on the precise Brexit outcome
The Company may not be able to get access, at reasonable cost, to infrastructure and product markets when required	• A range of different commercial options are pursued wherever possible
Credit to support further development infrastructure may not be available at reasonable cost	• The Company seeks to build and maintain strong banking relationships and initiates funding discussions at as early a stage a practicable

Future developments

The Company's ultimate parent company IOG, continues to seek long term funding for the Company.

Subject to the availability of finance, the Company plans to recommission PL370, explore new interests and seek new investment opportunities.

On behalf of the board

Andrew Hockey
Director
9 May 2019

Statement of directors' responsibilities
The Directors are responsible for preparing the Strategic Report, the Directors' Report and the financial statements in accordance with applicable UK law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law, the Directors have elected to prepare the Company's financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with UK Accounting Standards, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

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

Directors' confirmation
Each person who is director at the time when this report is approved has confirmed that:

a. So far as each director is aware, there is no relevant audit information of which the Company's auditor is unaware; and
b. Each director has taken all the steps that ought to have been taken as a director, including making appropriate enquiries of fellow directors for that purpose, in order to be aware of any information needed by the Company's auditor in connection with preparing their report and to establish that the Company's auditor is aware of that information.

Auditor
BDO LLP have expressed their willingness to continue in office and a resolution to re appoint them will be proposed at the Annual General Meeting.

On behalf of the board

Andrew Hockey
Director

9 May 2019

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF IOG INFRASTRUCTURE LIMITED

Opinion

We have audited the financial statements of IOG Infrastructure Limited ("the Company") for the year ended 31 December 2018 which comprise the Statement of Comprehensive Income, the Statement of Changes in Equity, the Statement of Financial Position and the Notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 101 Reduced Disclosure Framework (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2018 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) 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 are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. 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 to the financial statements, which indicates that the Company requires additional funding and no legally binding agreements are in place relating to securing additional funds from existing shareholders or new investors and therefore there can be no certainty that additional funds will be forthcoming. As stated in Note 1, these events or conditions, along with the other matters as set forth in Note 1, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Other information

The Directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and Directors' Report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic report and Director's report.

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

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

Responsibilities of Directors

As explained more fully in the Directors' responsibilities statement, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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 (UK) 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 further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: https://www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of our report

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an 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.

BDO LLP

Anne Sayers (Senior Statutory Auditor)
For and on behalf of BDO LLP, Statutory Auditor
London
United Kingdom

9 May 2019

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

IOG Infrastructure Limited

Statement of comprehensive income
for the year ended 31 December 2018

	Note	2018 £000	2017 £000
Management charges	2	165	-
Operating loss		**165**	-
Loss for the year before tax		**165**	-
Taxation	4	-	-
Total comprehensive loss for the year attributable to equity holders		**165**	-

The Notes on pages 14 to 23 form part of these financial statements.

IOG Infrastructure Limited

Statement of changes in equity
for the year ended 31 December 2018

	Share capital £000	Share premium £000	Accumulated deficit £000	Total equity £000
At 1 January 2018	-	-	-	-
Loss and total comprehensive loss for the year	-	-	165	165
At 31 December 2018	**-**	**-**	**165**	**165**

Share capital
Amounts subscribed for share capital at nominal value.

Share premium
Amounts received by the Company on the issue of its shares above the nominal value of the shares.

Accumulated deficit
Cumulative net gains and losses recognised in the Statement of Comprehensive Income net of amounts recognised directly in equity.

The Notes on pages 14 to 23 form part of these financial statements.

IOG Infrastructure Limited

Statement of financial position
at 31 December 2018

Company Number: 07632910

	Note	2018 £000
Non-current assets		
Property, plant and equipment	5	10,988
		10,988
Current assets		
Cash and cash equivalents	9	-
Total assets		**10,988**
Current liabilities		
Trade and other payables	6	(1,617)
Advances from parent company	6	(7,494)
		(9,111)
Non-current liabilities		
Provisions	7	(2,042)
Total liabilities		**(11,153)**
Net assets		**(165)**
Capital and reserves		
Share capital	8	-
Share premium		-
Accumulated deficit		(165)
		(165)

The financial statements were approved and authorised for issue by the Board of Directors on 9 May 2019 and were signed on its behalf by:

Andrew Hockey
Director

The Notes on pages 14 to 23 form part of these financial statements.

1 Accounting policies

Basis of preparation

IOG Infrastructure Limited is a private limited company incorporated and domiciled in England and Wales. The Company's financial statements for the year ended 31 December 2018 were authorised for issue by the Board of Directors on 9 May 2019.

The Company is preparing these financial statements in accordance with United Kingdom Accounting Standards – FRS 101, and with those parts of Companies Act 2006 applicable to companies preparing their accounts using FRS 101 for the first time; previous accounts were prepared in accordance with FRS102 Section 1A – Small Entities (effective 1 January 2016). The first-time adoption of FRS101 did not have an impact on the reported financial position or financial performance of the Company and therefore no transition adjustments were made to these financial statements.

The principal accounting policies adopted in the preparation of the financial statements are set out below. The policies have been consistently applied to the period as presented, unless otherwise stated.

The Company does not hold any cash and has not held any during the period.

The Company has taken advantage of the Statement of Cash Flow disclosure exemption under FRS 101 and the exemption available not to discuss the impact of new standards issued but not yet effective.

As the comparative Company balance sheet and profit & loss account have no figures disclosed due to rounding, comparative note disclosures for relevant headings have been excluded from the financial statements. Prior to the year ended 31 December 2018 the Company was incorporated with £1 share capital and £1 net assets recorded.

The preparation of financial statements requires the use of certain critical accounting estimates. It also requires Company management to exercise judgment in applying the Company's accounting policies. The areas where significant judgments and estimates have been made in preparing the financial statements and their effect are disclosed in this Note 1 on pages 17 → 18.

The financial statements are presented in Pounds Sterling which is also the Company's functional currency. Amounts are rounded to the nearest thousand unless otherwise stated.

The financial statements have been prepared on a historical cost basis.

Going concern

At 31 December 2018, the Company has net current liabilities of £9,111k and is dependent upon its parent company, IOG, for funding. The Board has reviewed IOG Group's cash flow forecasts up until 30 June 2020 having regard to its current financial position and operational objectives.

Notwithstanding the recent IOG announcements made in April 2019 with regard to both fundraising and the restructuring of the LOG debt, these forecasts indicate that IOG will need additional funding to support the Company and to enable it to progress with its planned development activities and to meet its liabilities as they fall due in the period from 1 January 2020. The Board however, is satisfied that the Company will have sufficient financial resources available to meet its commitments based on the likelihood of IOG being able to secure additional funding from existing stakeholders, the farmout of existing assets and/or funding from new investors. The Company identifies this additional funding and LOG restructuring, pursuant to the announcement on 1 April 2019, as an important first step and steer to deliver recommissioning of the PL370 asset. Accordingly, the Board continue to adopt the going concern basis for the preparation of these financial statements.

However, at the date of approval of these financial statements there are no legally binding agreements in place relating to future fundraising. There can be no certainty that additional funds will be forthcoming which therefore indicates the existence of a material uncertainty which may cast significant doubt about the Company's ability to continue as a going concern and therefore it may be unable to realise its assets and discharge its liabilities in the normal course of business. The financial statements do not include the adjustments that would result if the Company was unable to continue as a going concern.

1 Accounting policies *(continued)*

Offshore oil and gas pipeline assets

The Company adopts the following accounting policies for oil and gas pipeline assets:

Capitalisation

Costs of commissioning an offshore pipeline to transport hydrocarbons, including the cost of related onshore facilities and subsea equipment are capitalised as a tangible asset within property plant and equipment ('PPE'). Each contiguous pipeline will form an exclusive individual asset but there may be cases, such as phased developments, when pipelines are grouped together to form a single tangible pipeline asset. The cost of offshore pipeline assets also includes the cost of acquisitions and purchases of such assets, directly attributable overheads, applicable borrowing costs and the discounted cost of future decommissioning.

Depreciation

All costs relating to pipeline commissioning are not depreciated until the commencement of transportation of hydrocarbons. Depreciation is calculated on a straight-line basis over the period in which the pipeline is considered commercially viable. Any re-assessment of this timeline will impact on the depreciation rate prospectively. The key areas of estimation regarding depreciation are future capital expenditures and recoverable reserves for those fields where such pipelines are utilised for the transportation of oil and gas production.

Impairment

A review is carried out for any indication that the carrying value of the pipeline asset may be impaired. If any indicators are identified, such as the pipeline's commercial viability, or its inability to continue to operate safely and effectively in its current environment, an impairment review of the pipeline asset is performed. Any impairment resulting from the impairment review is charged to a separate line item within the Statement of Comprehensive Income.

Decommissioning

Provisions for decommissioning costs are recognised in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets. Provisions are recorded at the present value of the expenditures expected to be required to settle the Company's future obligations.

Provisions are reviewed at each reporting date to reflect the current best estimate of the cost at present value. Any change in the date on which provisions fall due will change the present value of the provision. These changes are treated as a charge or credit to the income statement. The unwinding of the discount is reflected as a finance expense.

In the case of an offshore pipeline asset, since the future cost of decommissioning is regarded as part of the total investment to gain access to future economic benefits, this is included as part of the cost of the relevant pipeline asset.

Foreign currencies

The functional and presentation currency of the Company is GBP Sterling.

The Company translates foreign currency transactions into the functional currency at the rate of exchange prevailing at the transaction date. Monetary assets and liabilities denominated in foreign currency are translated into the functional currency at the rate of exchange prevailing at the reporting date. Exchange differences arising are taken to the Statement of Comprehensive Income except for those incurred on borrowings specifically allocated to development projects, which are capitalised as part of the cost of the asset.

1 Accounting policies *(continued)*

Taxation

Current Tax

Tax is payable based upon the taxable result for the year. The taxable result differs from the net result as reported in the Statement of Comprehensive Income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable nor deductible. Any Company liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the reporting date.

Deferred Tax

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

Deferred tax liabilities are recognised for taxable temporary differences arising on interests in oil and gas pipeline assets, except where the Company can control the reversal of the temporary differences and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the Statement of Comprehensive Income, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity. Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

The amount of the asset or liability is determined using tax rates that have been enacted or substantively enacted by the reporting date and are expected to apply when the deferred tax liabilities/(assets) are settled/(recovered). Deferred tax balances are not discounted.

Operating Leases

Rentals under operating leases are charged on a straight-line basis over the lease term, unless such leases are capitalised where, accordingly, they are capitalised in full at the commencement of the lease term.

Financial instruments

Financial instruments are recognised when the Company becomes a party to the contractual provisions of the instrument and are subsequently measured at amortised cost.

<u>Classification and measurement of financial assets</u>
The initial classification of a financial asset depends upon the Company's business model for managing its financial assets and the contractual terms of the cash flows. The Company's financial assets are measured at amortised costs and are held within a business model whose objective is to hold assets to collect contractual cash flows and its contractual terms give rise on specified dates to cash flows that represent solely payments of principal and interest.

The Company's other receivables are measured at amortised cost. Other receivables are initially measured at fair value. The Company holds other receivables with the objective to collect the contractual cash flows and therefore measures them subsequently at amortised cost.

1 Accounting policies *(continued)*

Financial instruments (continued)

The Company has no financial assets measured at FVOCI (Fair Value Through Other Comprehensive Income) or FVTPL (Fair Value Through the Statement of Profit or Loss)

Impairment of financial assets
The Company recognises loss allowances for expected credit losses ('ECL's) on its financial assets measured at amortised cost. Due to the nature of its financial assets, the Company measures loss allowances at an amount equal to the lifetime ECLs. Lifetime ECLs are the anticipated ECLs that result from all possible default events over the expected life of a financial asset. ECLs are a probability-weighted estimate of credit losses.

Classification and measurement of financial liabilities
A financial liability is initially classified as measured at amortised cost or FVTPL. A financial liability is classified as measured at FVTPL if it is held-for-trading, a derivative or designated as FVTPL on initial recognition.

The Company's accounts payable, accrued liabilities and long-term debt are measured at amortised cost.

Accounts payable and accrued liabilities are initially measured at fair value and subsequently measured at amortised cost. Accounts payable and accrued liabilities are presented as current liabilities unless payment is not due within 12 months after the reporting period.

Long-term debt is initially measured at fair value, net of transaction costs incurred. The contractual cash flows of the long-term debt are made up of solely principal and interest, therefore long-term debt is subsequently measured at amortised cost. Long-term debt is classified as current when payment is due within 12 months after the reporting period.

Where warrants are issued in lieu of arrangement fees on debt facilities, the fair value of the warrants are measured at the date of grant as determined through the use of the Black-Scholes technique. The fair value determined at the grant date of the warrants is recognised in the parent company's warrant reserve and is amortised as a finance cost over the life of the facility.

The Company has no financial liabilities measured at FVTPL.

The LOG loans are securitised by guarantees over the assets of IOG North Sea Limited, IOG UK Limited and IOG Infrastructure Limited. These guarantees are considered insurance contracts and accounted for in accordance with the provisions of IFRS 4.

Critical accounting judgements and key sources of estimation uncertainty

The preparation of financial statements in conformity with 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. The estimates and associated assumptions are based on historical experience and factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgements about carrying values of assets and liabilities that are not clear from other sources. Actual results may differ from these estimates.

The following are the critical judgements that management has made in the process of applying the Company's accounting policies and that have the most significant effect on the amounts recognised in the financial statements.

Impairment of assets

Management is required to assess pipeline assets for indicators of impairment. This assessment requires judgement in the identification of impairment triggers and any subsequent assessment of recoverable value. The carrying value of pipeline assets is disclosed in Note 5.

1 Accounting policies *(continued)*

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

Key estimates used in the value-in-use calculations

The calculation of value-in-use for pipeline assets under development or in commission is most sensitive to the following assumptions:

- Commercial production for those assets aligned to the transportation of its oil and gas via the Company's pipelines and associated infrastructure;
- fixed and variable operating costs for PL370;
- capital expenditure for PL370; and
- discount rates

Commercial Production

Commercial production for those assets aligned to the use of PL370 and its associated infrastructure is determined by proven and probable ('2P') oil and gas reserves, calculated on an entitlement basis and include estimates of the amount of oil and gas in place, assumptions about reservoir and production performance over the life of the field and assumptions about commercial factors which, in turn, will be affected by the future oil and gas price.

Fixed and variable operating costs

Examples of fixed operating costs are terminal facility costs and operator overheads. Variable costs are based on fees, taxes or other specific penalties which may be associated with the delivery of gas to an onshore terminal or other facility. Such costs may be included in the tariff or other commercial agreement and charged to the end user of the pipeline.

Capital expenditure

Pipeline development is capital intensive and future capital expenditure has a significant bearing on the value of a pipeline asset. In addition, capital expenditure may be required to increase production and/or extend the life of a producing field. Cost assumptions are based on operator and/or service contractor cost estimates or specific contracts where available.

Discount rates

Discount rates reflect the current market assessment of the risks specific to the oil and gas sector and are based on the weighted average cost of capital for the Company. Where appropriate, the rates are adjusted to reflect the market assessment of any risk specific to the pipeline for which future estimated cash flows have not been adjusted. The Company has applied a risk adjusted discount rate of 10% for the current year.

Sensitivity to changes in assumptions

A potential change in any of the above assumptions may cause the estimated recoverable value to be lower than the carrying value, resulting in an impairment loss. The assumptions which would have the greatest impact on the recoverable amounts of the pipeline asset are those directly associated with those producing assets with commercial production utilising the pipeline.

Decommissioning

On acquisition of the Thames Pipeline, the Group assumed the decommissioning liability for the pipeline, which is based upon a regulatory framework determined by the OGA. A decommissioning provision has been made in the financial statements as at 31 December 2018. This provision will continue to be reviewed on an annual basis, given the regulatory framework is subject to constant change and is inherently uncertain over future years.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised, if the revision only affects that period, or, in the period of revision and future periods, if the revision affects both current and future periods.

2 Operating loss

The Company's operating loss is stated after charging the following:

	2018 £000
Fees payable to the Company's auditor for the audit of the Company's financial statements	-
Management charges net of amounts capitalised as oil and gas assets	165

Audit fees attributable to the Company have been accrued within the parent company for the year ended 31 December 2018. All audit fees are paid and settled by the parent company.

3 Staff costs and directors' remuneration

The Company has no employees, other than the directors, who did not receive any remuneration during the year. The parent company provided all management services. The Company did not provide Directors and Officers Liability insurance during the year.

4 Taxation

a) Current taxation

There was no tax charge during the year. Applicable expenditures will be accumulated for offset against future charges. The reasons for the difference between the actual tax credit for the year and the standard rate of corporation tax in the United Kingdom applied to losses for the year are as follows:

	2018 £000
Loss for the year	165
Tax expense	-
Loss before taxes	165
Expected tax credit based on the standard rate of United Kingdom corporation tax at the domestic rate of 40%	(66)
Expenses not taxable/allowable	66
Total tax expense	-

b) Deferred taxation

Total tax allowances available to claim in future periods in respect of revenue trading expenditure (to the extent that the Company commences a trade within seven years from the time the expenditure was incurred) are £165k, and in respect of capital expenditure are £8,447k.

The Company has not recognised a deferred tax asset at 31 December 2018 on the basis that the Company would expect the point of recognition to be when the Company has some level of revenue history showing that the Company is making profits in line with the underlying economic model which would support the recognition.

5 Property, plant and equipment

	2018
	£000
At cost	
Additions	10,488
Initial PL370 decommissioning security	500
At end of the year	10,988
Net book value	
At end of year	**10,988**

6 Current liabilities

	2018
	£000
Advances from parent company	7,494
Accruals	1,617
	9,111

The parent company has undertaken not to request repayment of advances until the Company has sufficient resources to make payment.

Accruals at 31 December 2018 reflect the value of work done undertaken for the year to 31 December 2018, which remains unbilled by vendors and suppliers as at 31 December 2018.

7 Non-current liabilities

	2018
	£000
At 1 January	-
Decommissioning provision	2,042
At 31 December	**2,042**

The £2.04 million provision for the Thames Pipeline decommissioning obligation has been calculated on a discounted cash flow basis, whereby the present value of the regulatory marine surveys has been inflated at 2% and then discounted at the risk-free discount rate of 1.8%. It has been estimated that the Thames Pipeline has a useful life of 25 years however, the judgements made in this regard, currently provided by the OGA, are inherently uncertain.

8 Equity share capital

	Shares Number	**Share capital £**
Authorised, allotted, issued and fully paid Ordinary shares of £1 each		
At incorporation and at 1 January 2018	1	1
At 31 December 2018	**1**	**1**

9 Cash and cash equivalents

	2018
	£000
Cash at bank and in hand	-

10 Operating leases

	2018
	£000
Minimum lease payments under operating leases recognised as capital expenditure in the year	53

At 31 December 2018, outstanding commitments for operating lease payments fall due as follows:

Within one year	58
In the second to fifth year inclusive	232

Operating lease payments represent the Crown Estate lease for the rights for the Thames Pipeline to cross the foreshore at Bacton.

11 Financial instruments

Financial risk management
The Board seeks to minimise its exposure to financial risk by reviewing and agreeing policies for managing each financial risk and monitoring them on a regular basis. At this stage, no formal policies have been put in place to hedge the Company's activities against the exposure to currency risk or interest risk and no derivatives or hedges were entered during the year.

General objectives, policies and processes
The Board has overall responsibility for the determination of the Company's risk management objectives and policies and, whilst retaining ultimate responsibility for them, it has delegated the authority for designing and operating processes that ensure the effective implementation of the objectives and policies to the Company's finance function. The Board receives regular reports from the Chief Financial Officer through which it reviews the effectiveness of the processes put in place and the appropriateness of the objectives and policies it sets.

The Company is exposed through its operations to the following financial risks:

- Liquidity risk;
- Cash flow interest rate risk; and
- Foreign exchange risk

The overall objective of the Board is to set policies that seek to reduce these risks as far as possible without unduly affecting the Company's competitiveness and flexibility. Further details regarding these policies are set out below:

Principal financial instruments
The principal financial instruments used by the Company, from which financial instrument risk may arise are as follows:

- Intercompany advances
- Trade and other payables

11 Financial instruments *(continued)*

Principal risks

Liquidity risk
The Company holds no cash resources and is funded entirely through IOG and therefore has no liquidity risk separate from that of IOG. Rolling cash forecasts identifying the liquidity requirements of the Company are produced frequently. These are reviewed regularly by management and the Board and then passed to IOG to ensure that sufficient financial resources are made available.

31 December 2018	6 months or less £000	Greater than 6 months, less than 12 months £000	Greater than 12 months £000	Total undiscounted £000	Carrying amount £000
Current financial liabilities					
Advances from parent	7,494	-	-	7,494	7,494
Accruals	1,617	-	-	1,617	1,617
	9,111	**-**	**-**	**9,111**	**9,111**

Cash flow interest rate risk
Advances from the parent company are non-interest bearing. Variations in commercial interest rates would have no impact upon the Company's result for the year ended 31 December 2018.

Foreign exchange risk
The Company carried limited exposure to foreign exchange risk during the period to 31 December 2018. Its costs are incurred almost entirely in Pounds Sterling and it has no current revenues. It is the Company's policy to enter transactions in its functional currency wherever possible and it monitors any currency exposures regularly. The Company considers this minimises any foreign exchange exposure. Consequently, no formal policies have been put in place in order to hedge the Company's activities to the exposure to currency risk.

Capital management
The primary objective of the Company's capital management is to maintain appropriate levels of funding to meet the commitments of its forward programme of exploration and development expenditures, and to safeguard the entity's ability to continue as a going concern and create shareholder value.

12 Related party transactions

Except for funds received from the ultimate parent company for transactions paid on behalf of the Company as disclosed in Note 6, there were no additional related party transactions in the year.

13 Ultimate parent company

The Company's immediate parent undertaking is Independent Oil and Gas plc, a company registered in the United Kingdom and whose registered address is 60 Gracechurch Street, London EC3V 0HR. This parent undertaking is the holding company of both the largest and the smallest group for which group accounts are prepared and of which the Company is a member. Both the parent company and group accounts can be found on the parent company website at www.independentoilandgas.com.