IOG North Sea Limited

Annual Report and Audited Financial Statements

For the year ended 31 December 2018

Company Number 07632999

IOG North Sea 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

Registered office
6th Floor
60 Gracechurch Street
London EC3V 0HR
United Kingdom

Company number
07632999

IOG North Sea 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 North Sea Limited (the 'Company' or 'IOGNS') 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 is currently the licensee and operator on one Traditional Licence, two Promote Licences and three Innovate licences all in the UK North Sea:

- P1736 in the Southern North Sea ('SNS') covering Blocks 48/22b and 48/23a in which lies the Blythe gas field;
- P2260 in the SNS covering Block 48/22c in which lies the Elgood gas field;
- P2085 in the SNS covering Blocks 48/23c and 48/24b in which lies the Harvey discovery;
- P2441 in the SNS covering Block 48/24a in which lies the Harvey South East extension;
- P2442 in the SNS covering Block 53/1b in which lies the Abbeydale discovery; and
- P2438 in the SNS covering Blocs 48/11b and 48/12b in which lies the Goddard gas field.

IOGNS holds all licences at 100% ownership.

P1609 in the Northern North Sea ('NNS') covering block 9/21a, in which lies the Skipper discovery, was formally relinquished on 11 February 2019 as determined by the UK Oil and Gas Authority ('OGA').

Blythe

The Blythe gas discovery in the Rotliegend Leman Formation, straddles Blocks 48/22b and 48/23a in the SNS in licence P1736. IOGNS has a 100% working interest and is operator. Blythe is planned to be developed with a single well tied back to the Thames Pipeline via a normal unmanned installation/platform ('NUI').

The *MV Fugro Galaxy* mobilised in late January 2018 and as part of its work programme carried out surveys across the Blythe Hub (Blythe and Elgood fields) in support of field development. At Blythe this work included site surveys for the NUI location and pipeline route surveys to the tie-in point at the Thames Pipeline, and environmental sampling. The Environmental Impact Assessment ('EIA') for the Blythe Hub was submitted on 31 January 2018 in line with milestones agreed with the OGA.

During development engineering studies in 1H 2018, it was decided to split the Group's SNS development into two Phases, with Phase 1 development including Blythe.

The Phase 1 Field Development Plan ('FDP') was submitted to the OGA in August 2018 and following bilateral meetings was resubmitted in late October 2018 taking account of OGA comments. At 31 December 2018, Final Investment Decision ('FID') and subsequent EIA and FDP approval was expected to occur in late Q1 2019 with first gas from the Blythe field anticipated in early Q1 2021, subject to project financing.

In July 2018, the contractor Wood carried out Front End Engineering Design ('FEED') studies to assess costs and scheduling for the tie-in lines to the Thames Pipeline for the Phase 1 development. In November 2018, offshore geotechnical surveys for the Blythe NUI were completed. Heerema also made progress with the FEED studies for the Blythe NUI in 2H 2018.

In December 2018 the initial Term of Licence P1736 was extended to 31 December 2019 subject to the condition that an FDP capable of approval would be received by the OGA by 30 June 2019 and FID would occur by 30 September 2019. First gas at Blythe is now expected to occur in Q2 2021.

Elgood

IOGNS has a 100% working interest and is operator of Licence P2260 which was awarded in the 28th UKCS Seaward Licensing Round. The licence, which lies immediately to the north-west of Blythe, contains the Elgood discovery in the Rotliegend Leman Sandstone.

Elgood is planned to be developed with a single well tied back subsea to the Thames Pipeline via a NUI at Blythe. The *MV Fugro Galaxy* mobilised in late January 2018 and as part of its work programme carried out subsea surveys across the Blythe Hub (Blythe and Elgood fields) in support of field development. At Elgood this work included a pipeline route survey to the tie-in point at Blythe and environmental sampling.

The Phase 1 Field Development Plan ('FDP') was submitted to the OGA in August 2018 and following bilateral meetings was resubmitted in late October 2018 taking account of OGA comments. At 31 December 2018, FID and subsequent EIA and FDP approval was expected to occur at end Q1 2019 with first gas at Elgood in Q2 2021 subject to project financing.

In July 2018, the contractor Wood carried out FEED studies to assess costs and scheduling for the tie-in lines to the Thames Pipeline for the Phase 1 development.

In January 2019 IOG received notification from the OGA that the drill or drop commitment for the initial Term of Licence P2260 had been waived and the Licence could proceed into the Second Term, subject to the condition that an FDP capable of approval would be received by the OGA by 30 June 2019 and FID would occur by 30 September 2019. First gas at Elgood is now expected to occur in Q3 2021.

Harvey

IOGNS has a 100% working interest and is operator of both Licences P2085 and P2441. These licences contain 100% of the structure. P2085 was awarded in the 27th UKCS Seaward Licensing Round and Licence P2441 was awarded during 2018 in the 30th UKCS Seaward Licensing Round. The Harvey reservoir is targeted in the Rotliegend Leman Sandstone Formation.

In the first half of 2018 work on P2085 and adjacent open areas focused on the reprocessing of existing 3D seismic data, to Pre-Stack Depth Migration ('PSDM') level, with our contractor Schlumberger WesternGeco, to support the selection of a well location for the firm Harvey well committed in late 2017.

Following the completion of seismic reprocessing in July 2018, the dataset was reinterpreted and remapped. This remapping led to a new volumetric assessment of gross unrisked Prospective Resources (as estimated by management) at Harvey of 85-129-199 BCF (Low-Mid-Best Estimate) versus the 2017 Competent Person's Report ('CPR') estimate of 45-114-286 BCF respectively. Management's assessment of geological chance of success at Harvey is 63%. The gross volumes were secured by IOGNS with the award of Licence P2441, commencing 1 October 2018. Under the licence a firm commitment was made to the OGA to reprocess 87 km^2 of 3D seismic to PSDM and drill a well to 2,345m TD or drop the Licence.

In support of the Licence P2085 firm well commitment, a Letter of Intent ('LoI') was signed with Ensco for the *Ensco 72* Jack-Up Drilling Unit for the drilling of a Harvey appraisal well in 2019, to be spud before 20 September 2019. Drilling services contractor Halliburton have been awarded a LoI to provide well services and Fraser Well Management were identified as the drilling operator and management contractor. Technical work proceeded to the point where a well location was selected for the Harvey well in October 2018 and permitting and planning was further advanced to drill the well in 1Q 2019, subject to funding.

All costs associated with developing the Harvey SE extension are now incorporated within the main Harvey licence P2085, as determined by one single field area. Management will continue to account for any minor licence admin costs (Licence fees, OGA levy etc.) associated with P2441 separately. Resources in the other discoveries and prospects on the Harvey area blocks will be subject to evaluation and appraisal following the results of the 3D seismic reprocessing.

Goddard

On 23 May 2018, IOGNS was offered Blocks 48/11c & 48/12b in the 30th UKCS Seaward Licensing Round and accepted the offer as Provisional Licence P2438 which contains Goddard, hitherto known as Glein, a dormant gas discovery. Licence P2438 formally commenced on 1 October 2018. Under the licence a firm commitment was made to the OGA to reprocess 175 km^2 of 3D seismic to PSDM and drill, within three years, an appraisal well on Goddard to 3,140m TD.

In the second half of 2018 work on Goddard focused on securing access to 3D seismic data processed to PSDM level across the Licence. This dataset was secured from a previous operator. On licence commencement, for audit purposes, it was decided to submit the work done to date to reservoir engineering contractor ERC Equipoise ('ERC'), as the Competent Person. Based upon the Licence Application document, management estimates of 1C/2C/3C Contingent Resources were 45/189/396 BCF respectively. ERC completed their work and assessed gross unrisked 1C/2C/3C Contingent Resources of 54.3/107.8/202.8 BCF respectively and Low/Best/High gross unrisked prospective gas resources of 41.8/73.0/121.4 BCF respectively. The CPR assesses the geological chance of success of the prospective gas resources at 48%. The chance of development of Goddard is estimated by ERC as being 75%.

Considering the relative maturity of Goddard's Contingent Resources, it was decided in early 2019 to commence Goddard FDP planning and to include Goddard in Phase 1 core development planning.

Abbeydale

On 23 May 2018, IOGNS was offered Block 53/1b in the 30th UKCS Seaward Licensing Round and accepted the offer as Provisional Licence P2442, containing the Abbeydale dormant gas discovery, hitherto known as Aberdonia, discovered in 1996. Licence P2442 formally commenced on 1 October 2018. Under the four-year Licence, a commitment was made to reprocess 150 km^2 3D seismic data to PSDM and either drill a well to 1,960m TD or drop the licence. 2H 2018 work focused on securing prices for 3D reprocessing.

Management estimate of contingent resources on Abbeydale are 1C/2C/3C 5/11/24 BCF respectively. The new 3D seismic work programme is expected to increase these estimates to more commercial levels with a view to a tie-in to the Thames Pipeline as the export route.

Key Performance Indicators

The Directors consider both quantitative and qualitative information to be the KPIs of the Company.

Quantitative performance is tracked by way of capital spend and relevant funding for projects. Qualitative performance is tracked through the accumulation of licence interests followed by the successful discovery and exploitation of oil and gas reserves as indicated through prospective, contingent and proved reserves inventories.

Principal Risks and Uncertainties

The Company operates in the 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 to are access to sufficient funding to continue its operations, changes in cost and reserves estimates for its assets, changes in forward commodity prices and the successful development of its oil and gas reserves.

Key risks and associated mitigation are set out below.

Investment Returns: Management seeks to generate shareholder returns though investment in a portfolio of appraisal and development acreage leading to the drilling of wells, the discovery of commercial reserves followed by their exploitation. 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 an asset portfolio 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 asset carries its own risk profile and no outcome can be certain	• Management aims to avoid over-exposure to individual assets and to identify the associated risks objectively
The parent company may not be able to raise funds to exploit the Company assets or for the Company to continue as a going concern	• The management of the parent company is pursuing specific and appropriate plans for funding the development of the Company's asset portfolio 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 as well as a concurrent amendment to the terms of its loan notes. As set out in Note 1 the parent company will require additional funding within the next twelve months in order to meet the Company's development plans.
The Company has given security over its assets to London Oil and Gas Limited ('LOG'), being the lender of the parent company, Independent Oil & Gas plc ('IOG'), and the IOG group.	• Management of the parent company are 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.

Licensing & Regulation: The Company may be unable to meet its licence and regulatory obligations.

Risk	Mitigation
UKCS Licences may be revoked	• Continue proactive communications with the OGA to determine licence status and meet requirements

Principal Risks and Uncertainties *(continued)*

Operations: Operations may not go to plan, leading to damage, pollution, cost overruns and poor outcomes.	
Risk	**Mitigation**
Individual wells may not deliver recoverable oil and gas reserves	• Thorough pre-drill evaluations are conducted to identify the risk/reward balance • Exposure selectively mitigated through farm-out
Operations may take far longer or cost more than expected	• Management applies rigorous budget control • Adequate working capital is retained to cover reasonable eventualities
Resource estimates may be misleading curtailing actual reserves 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 Group'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 sales value of its products	• Price mitigation strategies may be employed at the point of major capital commitment • Gas may be sold under long-term contracts reducing exposure to short term fluctuations • Oil and gas price hedging contracts may be utilised where viable • Budget planning considers a range of commodity pricing
Brexit	• The Company does not see Brexit having a significant impact on its business model – the Company's production 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 off-take options are pursued wherever possible
Credit to support field development programmes 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 continues to seek long term funding for Blythe, Elgood and Harvey through to first production. Subject to the availability of finance, the Company plans to appraise and develop its existing discoveries, explore new licence interests and seek new investment opportunities.

On behalf of the board

Andrew Hockey
Director
9 May 2019

Results and dividend
The Company made a loss on ordinary activities for the period of £2,510k (2017: £1,827k).

The loss includes a net impairment charge of £186k (2017: £116k) which consists of Skipper expenditures. Other charges include the parent company management fee of £232k (2017: £177k) and finance expenses of £2,075k (2017: £1,534k).

The Directors do not recommend the payment of a dividend (2017: nil).

Funding and Liquidity
The Company has net current liabilities of £36,292k and net liabilities of £29,662k 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 both the Blythe Hub development and progress its Harvey and other discoveries. 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.

Directors and their interests
The Directors who held office during the year, and at the date of this report, were:

Mark Routh (resigned 31 December 2018)
Andrew Hockey
Mark Hughes (appointed 19 April 2018)

There are no directors' interests requiring disclosure under the Companies Act 2006.

Indemnities
The company did not provide Directors and Officers Liability insurance during the year (2017: nil).

Financial instruments
Information on financial instruments can be found in Note 14 to the financial statements.

Related parties
Information on related parties can be found in Note 16 to the financial statements.

Subsequent events
There are no material subsequent events for disclosure, other than those discussed earlier, pursuant to the parent company IOG announcement made on 1 April 2019.

Statement of directors' responsibilities

The Directors are responsible for preparing the strategic report and the directors' report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law, the Directors have elected to prepare the Company's financial statements in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union. Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the 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 IFRSs as adopted by the European Union, 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, 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 reappoint 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 NORTH SEA LIMITED

Opinion

We have audited the financial statements of IOG North Sea 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 International Financial Reporting Standards (IFRSs) as adopted by the European Union.

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 IFRSs as adopted by the European Union; 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 the Directors' 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.

Anne Sayers
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 North Sea Limited

Statement of comprehensive income
for the year ended 31 December 2018

	Note	2018 £000	2017 £000
Management charges		(232)	(177)
Other administrative expense		(17)	-
Impairment of oil and gas properties	6	(186)	(116)
Operating loss		**(435)**	**(293)**
Finance expense	4	(2,075)	(1,534)
Loss for the year before tax		**(2,510)**	**(1,827)**
Taxation	5	-	-
Total comprehensive loss for the year attributable to equity holders		**(2,510)**	**(1,827)**

The Notes on pages 16 to 34 form part of these financial statements.

IOG North Sea Limited

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

	Share capital £000	Accumulated deficit £000	Total equity £000
At 1 January 2017	-	(25,325)	(25,325)
Loss and total comprehensive loss for the year	-	(1,827)	(1,827)
At 31 December 2017	**-**	**(27,152)**	**(27,152)**
At 1 January 2018	-	(27,152)	(27,152)
Loss and total comprehensive loss for the year	-	(2,510)	(2,510)
At 31 December 2018	**-**	**(29,662)**	**(29,662)**

Share capital

Amounts subscribed for share capital at nominal value.

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 16 to 34 form part of these financial statements.

IOG North Sea Limited

Statement of financial position
at 31 December 2018

Company Number: 07632999

	Note	31 December 2018 £000	31 December 2017 £000
Non-current assets			
Intangible assets: exploration and evaluation	6	2,380	195
Property, plant and equipment: development and production	7	16,299	12,957
		18,679	**13,152**
Current assets			
Cash and cash equivalents	13	-	-
Total assets		**18,679**	**13,152**
Current liabilities			
Trade and other payables	10	(694)	(162)
Advances from parent company	10	(14,881)	(10,853)
Loans from parent company	10	(13,783)	(13,783)
Loans	10	(6,934)	-
		(36,292)	**(24,798)**
Non-current liabilities			
Other loans	11	(8,830)	(12,394)
Provisions	11	(3,219)	(3,112)
Total liabilities		**(48,341)**	**(40,304)**
Net liabilities		**(29,662)**	**(27,152)**
Capital and reserves			
Share capital	12	-	-
Accumulated loss		(29,662)	(27,152)
		(29,662)	**(27,152)**

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 16 to 34 form part of these financial statements.

1 Accounting policies

General information

IOG North Sea 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.

Basis of preparation

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

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.

These financial statements have been prepared in accordance with International Financial Reporting Standards adopted by the European Union, International Accounting Standards and Interpretations (collectively 'IFRSs') and with those parts of Companies Act 2006 applicable to companies preparing their accounts under IFRS.

No cash flow statement has been presented in the financial statements as the Company does not hold any cash and has not held any during the period.

The preparation of financial statements in compliance with adopted IFRS 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 22 and 23.

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

Going concern

The Company has net current liabilities of £36,292k and net liabilities of £29,662k and is dependent upon its parent company, IOG, for funding. The Board has reviewed the 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 both the Blythe Hub development and progress its Harvey and other discoveries. 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)*

New and revised accounting standards

(i) New and amended standards adopted by the Company:

The accounting policies adopted are consistent with those of the previous financial year. New or amended financial standards or interpretations adopted during the year that have a significant impact upon the financial statements are detailed below.

(ii) The following standards, amendments and interpretations, which are effective for reporting periods beginning after the date of these financial statements, have not been adopted early:

Standard	Description	Effective date
IFRS 16	Leases	1 January 2019
IFRIC 23	Uncertainty over Income Tax Treatments	1 January 2019
IAS 28	Long-term Interest in Associates and Joint Ventures (Amendments)	1 January 2019
IFRS 3, IFRS 11, IAS 12, IAS 23	Annual Improvements to IFRS Standards 2015-2017 Cycle	1 January 2019
IAS 19	Plan Amendment, Curtailment or Settlement (Amendments)	1 January 2019
IFRS 3	Definition of a Business (Amendments to IFRS 3)	1 January 2020
IAS1, IAS8	Definition of Material (amendments to IAS1 and IAS 8)	1 January 2020
n/a	Amendments to References to the Conceptual Framework in IFRS Standards	1 January 2020
IFRS 17	Insurance Contracts	1 January 2021

IFRS 16 “Leases” - the Board assesses that the net impact to the Income Statement in 2019 and future years will be dependent on those prevailing lease contracts and other such similar oil and gas development contractual agreements which may have been executed prior to 31 December 2019. The Board is uncertain as to the length of time such contracts may cover; however, if such contracts cover any continuous period of greater than one year, then such contracts will be subject to IFRS16. Such contracts will result in both assets and liabilities on the Balance Sheet to increase by corresponding amounts, which, as at 31 December 2018 would have been immaterial. At 31 December 2018 the Company was not subject to any long-term lease contracts. The Company has not adopted this standard early and has not made any IFRS16 provision for the year ending 31 December 2018.

The application of the other standards above in future financial statements is not expected to have a material impact on those financial statements.

1 Accounting policies *(continued)*

New significant standards and amendments effective 1 January 2018

IFRS 9 Financial Instruments

IFRS 9, Financial Instruments introduced new requirements for the recognition, classification and measurement of financial assets and liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting. IFRS 9 replaced the multiple classification and measurement models for financial assets and financial liabilities that existed under IAS 39 Financial Instruments, and the basis on which financial assets are measured will determine their classification as either, at amortised cost, fair value through profit and loss, or fair value through other comprehensive income. The Company has no financial assets at 31 December 2018. The Company's principal financial liabilities comprise other payables, loans and advances from the parent company IOG. All these financial liabilities continue to be classified and measured at amortised cost.

The Company did not choose to adopt IFRS 9 early and has chosen not to apply the standard retrospectively on the basis of the impact not being significant.

Asset Acquisition

In the event of an asset acquisition, the cost of the acquisition is assigned to the individual assets and liabilities based on their relative fair values. All directly attributable costs are capitalised. Contingent consideration is accrued for when these amounts are considered probable and is discounted to present value based on the expected timing of payment.

Oil and gas exploration, development and producing assets

The Company adopts the following accounting policies for oil and gas asset expenditure, based on the stage of development of the assets:

a) Pre-Licence
Expenditure incurred prior to the acquisition and/or award of a licence interest is expensed to the Statement of Comprehensive Income as 'Exploration Expenses'.

b) Exploration and evaluation ('E&E')
Capitalisation

Costs incurred after rights to explore have been obtained, such as geological and geophysical surveys, drilling and commercial appraisal costs, and other directly attributable costs of exploration and appraisal are capitalised as intangible exploration and evaluation ('E&E') assets. The assessment of what constitutes an individual E&E asset is based on technical criteria but essentially either a single licence area or contiguous licence areas with consistent geological features are designated as individual E&E assets. Costs relating to the exploration and evaluation of oil and gas interests are carried forward until the existence, or otherwise, of commercial reserves have been determined.

E&E costs are not amortised prior to the conclusion of appraisal activities. Once active exploration is completed the asset is assessed for impairment. If commercial reserves are discovered then the carrying value of the E&E asset is reclassified as a development and production ('D&P') asset, within property, plant and equipment ('PPE'), following development sanction by the Board, but only after the carrying value is assessed for impairment at point of transfer and, where appropriate, the carrying value adjusted. Following development sanction by the Board, a FDP may be submitted. If it is subsequently assessed that commercial reserves have not been discovered, the E&E asset is written off to the Statement of Comprehensive Income. The Company's definition of commercial reserves for such purpose is proven and probable ('2P') reserves on an entitlement basis.

Intangible E&E assets that relate to E&E activities that are not yet determined to have resulted in the discovery of commercial reserves remain capitalised as intangible E&E assets at cost, subject to impairment assessments as set out below.

Oil and gas exploration, development and producing assets *(continued)*

b) Exploration and evaluation ('E&E') *(continued)*
Impairment

The Company's oil and gas assets are analysed into cash generating units ('CGU') for impairment reporting purposes, with E&E asset impairment testing being performed at an individual asset level. E&E assets are reviewed for impairment when circumstances arise which indicate that the carrying value of an E&E asset exceeds the recoverable amount. Such indicators would include but not limited to:

(i) sufficient data exists that render the resource uneconomic and unlikely to be developed;
(ii) title to the asset is compromised;
(iii) budgeted or planned expenditure is not expected in the foreseeable future; and
(iv) insufficient discovery of commercially viable resources leading to the discontinuation of activities.

The recoverable amount of the individual asset is determined as the higher of its fair value less costs to sell and value in use. Impairment losses resulting from an impairment review are separately recognised and written off to the Statement of Comprehensive Income.

Impaired assets are reviewed annually to determine whether any substantial change to their fair value amounts previously impaired would require reversal.

A previously recognised impairment loss is reversed if the recoverable amount increases because of a change in the estimates used to determine the recoverable amount, but not to an amount higher than the carrying amount that would have been determined (net of depletion or amortisation) had no impairment loss been recognised in prior periods. Reversal of impairments and impairment charges are credited/(charged) to a separate line item within the Statement of Comprehensive Income.

c) Development and production ('D&P')
Capitalisation

Costs of bringing a field into production, including the cost of facilities, wells and sub-sea equipment together with E&E assets reclassified in accordance with the above policy, are capitalised as a D&P asset within property, plant and equipment. Normally each individual field development will form an individual D&P asset but there may be cases, such as phased developments, or multiple fields around a single production facility when fields are grouped together to form a single D&P CGU. The cost of development and production assets also include the cost of acquisitions and purchases of such assets, directly attributable overheads, applicable borrowing costs and the cost of recognising provisions for future consideration payments.

Depreciation and depletion

All costs relating to a development are accumulated and not depreciated until the commencement of production. Depreciation is calculated on a UOP basis based on the 2P reserves of the asset. Any re-assessment of reserves affects the depreciation rate prospectively. Significant items of plant and equipment will normally be fully depreciated over the life of the field; however, these items are assessed to consider if their useful lives differ from the expected life of the D&P asset and should this occur a different depreciation rate may be charged. The key areas of estimation regarding depreciation and the associated unit of production calculation for oil and gas assets are recoverable reserves and future capital expenditures.

Oil and gas exploration, development and producing assets *(continued)*

c) Development and production ('D&P') *(continued)*

Impairment

A review is carried out for any indication that the carrying value of the Company's D&P assets may be impaired. If any indicators are identified, a review of D&P assets is carried out on a CGU basis and involves comparing the carrying value with the recoverable value of the CGU. The recoverable amount of is determined as the higher of its fair value less costs to sell and value in use. The value in use is determined from estimated future net cash flows, being the present value of the future cash flows expected to be derived from production of commercial reserves. Impairment resulting from the impairment testing is charged to a separate line item within the Statement of Comprehensive Income.

The pre-tax future cash flows are adjusted for risks specific to the CGU and are discounted using a pre-tax discount rate. The discount rate is derived from the Company's post-tax weighted average cost of capital and is adjusted where applicable to consider any specific risks relating to the country where the CGU is located, although other rates may be used if appropriate to the specific circumstances. The discount rates applied in assessments of impairment are reassessed each year. The Company uses a risk adjusted discount rate of 10%, unless otherwise stated.

The CGU basis is generally the field, however, oil and gas assets, including infrastructure assets may be accounted for on an aggregated basis where such assets are economically inter-dependent.

Provisions, contingent liabilities and contingent assets

Provisions are recognised when:
(i) the Company has a present legal or constructive obligation as a result of past events;
(ii) it is more likely than not that an outflow of resources will be required to settle the obligation; and
(iii) the amount can be reliably estimated.

Provisions are recorded at the present value of the expenditures expected to be required to settle the Group'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 an administration expense. The unwinding of the discount is reflected as a finance expense.

Disposals

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in profit or loss when the item is derecognised. The gain or loss arising from the de-recognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

Foreign currencies

The Company's functional currency is GBP Sterling and has been selected based on the currency of the primary economic environment in which the Company operates. The Company's primary product is generally traded by reference to its pricing in GBP Sterling. Transactions in currencies other than the functional currency are recorded at a rate of exchange approximating to that prevailing at the date of the transaction. At each balance sheet date, monetary assets and liabilities that are denominated in currencies other than the functional currency are translated at the amounts prevailing at the balance sheet date and any gains or losses arising are recognised in the Statement of Comprehensive Income.

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 on other years and it further excludes items that are never taxable or deductible. Any Company liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the reporting date.

1 Accounting policies *(continued)*

Taxation (continued)

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 investments in subsidiaries and associates, and interests in Joint Ventures, 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.

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.

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)

<u>Impairment of financial assets</u>
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.

<u>Classification and measurement of financial liabilities</u>
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.

1 Accounting policies *(continued)*

Financial Instruments (continued)

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.

Convertible loan notes

Upon issue, convertible notes are separated into the equity and liability components at the date of issue. The liability component is recognised initially at its fair value. Subsequent to initial recognition, it is carried at amortised carrying value using the effective interest method until the liability is extinguished on conversion or redemption of the notes. The equity component is the residual amount of the convertible note after deducting the fair value of the liability component. This is recognised and included in equity and is not subsequently re-measured.

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 entity's accounting policies and that have the most significant effect on the amounts recognised in financial statements.

Impairment of assets

Management is required to assess oil and gas assets for indicators of impairment and has considered the economic value of individual E&E and D&P assets. The carrying value of oil and gas assets is disclosed in Note 6 and Note 7. Exploration and evaluation assets are subject to a separate review for indicators of impairment, by reference to the impairment indicators set out in IFRS 6, which is inherently judgmental. Development and production assets are subject to the impairment indicators by reference to IAS36 and IAS16 criteria.

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 oil and gas assets under development or in production is most sensitive to the following assumptions:

- Commercial reserves
- production volumes;
- commodity prices;
- fixed and variable operating costs;
- capital expenditure; and
- discount rates.

Commercial Reserves

Commercial reserves are proven and probable ('2P') oil and gas reserves, calculated on an entitlement basis. Estimates of commercial reserves underpin the calculation of depletion and amortisation on a UOP basis. Estimates of commercial reserves include estimates of the amount of oil and gas in place, assumptions about reservoir 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.

Production volumes/recoverable reserves

Annual estimates of oil and gas reserves are generated internally by the Company with external input from the Competent Person. These are reported annually to the Board. Certified estimated future production profiles, as audited by the Competent Person, are used in the life of the fields which in turn are used as a basis in the value-in-use calculation.

Commodity prices

An average of published forward prices and the long-term assumption for natural gas and Brent oil are used for future cash flows in accordance with the Company's corporate assumptions. Field specific discounts and prices are used where applicable.

Fixed and variable operating costs

Typical examples of variable operating costs are pipeline tariffs, treatment charges and freight costs. Commercial agreements are in place for most of these costs and the assumptions used in the value-in-use calculation are sourced from these where available. Examples of fixed operating costs are platform costs and operator overheads. Fixed operating costs are based on internal, the Joint Venture operator, and/or third-party duty holder budgets.

Capital expenditure

Field development is capital intensive and future capital expenditure has a significant bearing on the value of an oil and gas development asset. In addition, capital expenditure may be required for producing fields to increase production and/or extend the life of the 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 field 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 (2017: 10%).

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 fields are production volumes and commodity prices.

2 Operating loss

The Company's operating loss is stated after charging/(crediting) the following:

	2018 £000	2017 £000
Fees payable to the Company's auditor:		
for the audit of the Company's financial statements	17	-
Impairment of oil and gas properties	186	116
Management charges, net of amounts capitalised as oil and gas assets	232	177

An amount of £17k was accrued within the parent company for audit fees attributable to the Company for the year ended 31 December 2017. 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 (2017: nil) during the year. Its parent company IOG provided all management services. The Company did not provide Directors and Officers Liability insurance during the year (2017: nil).

4 Finance expense

	2018 £000	2017 £000
Interest on loans	1,274	1,092
Amortisation of loan finance charges	303	411
Current year loan finance charge	-	12
Unwinding of discount on Blythe deferred consideration provision	306	152
Foreign exchange loss/(gain)	192	(133)
	2,075	1,534

5 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	2017
	£000	£000
Loss for the year	(2,510)	(1,827)
Tax expense	-	-
Loss before taxes	(2,510)	(1,827)
Expected tax credit based on the standard rate of United Kingdom corporation tax at the domestic rate of 40% (2017: 40%)	(1,004)	(731)
Difference in tax rates	197	-
Expense not deductible for tax purposes	123	61
Income not taxable / allowable	(1,396)	(973)
Unrecognised losses carried forward	2,080	1,643
Total tax expense	-	-

b) Deferred taxation

Due to the nature of the Company's pre-development activities there is a long lead time in either developing or otherwise realising the value of E&P oil and gas assets. The amount of deductible temporary differences, unused tax losses and unused tax credits for which no deferred tax asset is recognised in the statement of financial position is £37.14 million (2017: £26.05 million). Included within this figure are accelerated capital allowances of £18.68 million (2017: £10.17 million).

The Company has not recognised the net 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 production history showing that the Company is making profits in line with the underlying economic model which would support the recognition.

6 Intangible assets

	31 December 2018 £000	31 December 2017 £000
Exploration and evaluation assets		
At cost		
At beginning of year	22,409	22,258
Additions	2,371	468
Reclassified as development and production assets[1]	-	(317)
At end of year	24,780	22,409
Impairments and write-downs		
At beginning of year	(22,214)	(22,098)
Impairment	(186)	(116)
At end of year	(22,400)	(22,214)
Net book value		
At end of year	**2,380**	**195**
At beginning of year	**195**	**160**

The impairment at 31 December 2018 of £186k (2017: £116k) highlights those costs associated with the Skipper field impaired during the year. The Skipper licence P1609 was subsequently relinquished, as determined by the OGA, on 11 February 2019.

[1] Following submission of the joint Blythe and Elgood FDP in July 2017, as per the Company's accounting policy, the Elgood asset was re-categorised as property, plant and equipment: a development and production asset.

Exploration & evaluation assets of £2,380k at 31 December 2018 comprise the Company's interest in the Harvey, Goddard and Abbeydale appraisal prospects (2017: £195k comprise the Company's interest in the Harvey appraisal prospect alone).

7 Property, plant and equipment

	31 December 2018 £000	31 December 2017 £000
Development and production assets		
Cost at net book value		
At beginning of year	12,957	8,714
Additions	3,734	848
Blythe asset acquisition (Note 8)	(392)	3,078
Reclassified from exploration and evaluation assets	-	317
At end of year	16,299	12,957
Net book value		
At end of year	**16,299**	**12,957**
At beginning of year	**12,957**	**8,714**

Development and production assets of £16,299k at 31 December 2018 (2017: £12,957k) comprise the Company's interests in both the Blythe and Elgood assets.

8 Asset Acquisitions

On 21 June 2016, the Company announced the completion of the additional 50% operated stake in the Blythe field, thereby increasing its interest to 100%. The consideration comprised an upfront payment of £1.50 million, plus interim cash adjustments payable at completion with deferred consideration of a further USD 5.00 million to be paid at first gas production. An amount of £1.66 million was recorded in the 2016 financial statements for the upfront payments, interim cash adjustments and direct costs of the acquisition.

Given the USD 5.00 million is dependent on achievement of a future milestone event, which is now considered more certain than not, and the transaction is considered an asset acquisition, a credit amount of £0.39 million (2017: £3.08 million acquisition cost) has been recognised in the financial statements and recorded within the cost base of the Blythe asset. See Note 11 for further details.

	2018 £000	2017 £000
At 1 January	3,078	-
Milestone payments recognised within D&P assets (Note 7)	-	3,078
Discount adjustment on future milestone payments (Note 11)	(392)	-
At 31 December	**2,686**	3,078

9 Interests in production licences

All Company UK Offshore Production Licences are held 100% by IOG North Sea Limited

10 Current liabilities

	31 December 2018 £000	31 December 2017 £000
Advances from parent company	14,881	10,853
Loans from parent company	13,783	13,783
Loans (see Note 11)	6,934	-
Accruals	694	162
	36,292	**24,798**

Under the terms of the Management Services Agreement between the parent company and IOGNS, the parent company will not seek repayment of loans and/or advances until IOGNS has sufficient funds to make such payments.

Accruals for the Company have increased significantly in the period, due to the value of SNS Project work undertaken for the year to 31 December 2018, which remains unbilled by vendors and suppliers as at 31 December 2018.

11 Non-current liabilities

	31 December 2018 £000	31 December 2017 £000
Other loans	8,830	12,394
Provisions	3,219	3,112
	12,049	**15,506**

On 7 December 2015, a loan facility was announced for £2.75 million arranged with London Oil and Gas Limited ('LOG'). On 11 December 2015, a further loan was announced for £0.8 million arranged with LOG. On 5 February 2016, a further loan was announced, arranged with LOG and provided for £10.0 million of secured convertible debt funding. This loan is secured against the Company's assets and fully convertible at LOG's election into the parent company's shares at a conversion price of 8p. This loan would need to be drawn in full within three years of completion and converted into ordinary shares in the parent company within 36 months after each drawing.

The interest rate on all LOG loans is LIBOR + 9%. This is deemed to be a market rate and hence no equity element has been recognised for the £10.0 million convertible loan.

Of the Company's non-current other loans, the total of £8.83 million was due to London Oil & Gas Limited (2017: £12.39 million), net of prepaid finance costs. This balance is represented by drawings of £13.55 million (2017: 11.91 million) plus accrued interest of £2.51 million (2017: £1.09 million), less the non-amortised value £0.30 million (2017: £0.61 million) of loan finance expenses, less the £6.93 million (2017: nil) included in current liabilities.

Contingent consideration payable:

As indicated in Note 8, the Company is required, under the terms of the acquisition of the additional 50% of Blythe, to pay further amounts on first gas. A provision in the sum of £3.22 million has been recognised in the financial statements (2017: £3.11 million). This amount has been provided for and the payment discounted to the point where the Board expect the milestone to be achieved based on the current development programme. Timing for this payment is anticipated to be 31 January 2021.

The movement in the year is as follows:

	2018	2017
	£000	£000
at 1 January	3,112	-
Additional Blythe consideration	-	3,078
Prospective adjustment for change in payment dates (Note 8)	(392)	-
Foreign exchange	193	(118)
Unwinding of discount	306	152
at 31 December	**3,219**	3,112

12 Equity share capital

	Shares Number	Share capital £000
Authorised, allotted, issued and fully paid Ordinary shares of £1 each		
At 1 January 2018	1	-
At 31 December 2018	**1**	**-**

13 Cash and cash equivalents

	31 December 2018 £000	31 December 2017 £000
Cash at bank and in hand	-	-

The Company did not hold any cash throughout the year with all amounts being paid by the parent company.

14 Financial instruments

Significant accounting policies
Details of the significant accounting policies in respect of financial instruments are disclosed in Note 1 of the financial statements.

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:

- Advances and loans from parent company
- Other payables
- Other loans
- Provisions

14 Financial instruments *(continued)*

Principal risks

Liquidity risk
The Company holds no cash resources and is funded entirely through its parent company and therefore has no liquidity risk separate from that of its parent company, 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 the parent company 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	14,881	-	-	14,881	14,881
Loans from parent	13,783	-	-	13,783	13,783
London Oil & Gas Ltd loans	3,138	4,213	-	7,351	6,934
Accruals	694	-	-	694	694
Non-current financial liabilities					
Provisions	-	-	3,926	3,926	3,219
London Oil & Gas Ltd loans [1]	-	-	10,575	10,575	9,133
	32,496	**4,213**	**14,501**	**51,210**	**48,644**
31 December 2017					
Current financial liabilities					
Advances from parent	10,853	-	-	10,853	10,853
Loans from parent	13,783	-	-	13,783	13,783
Accruals	162	-	-	162	162
Non-current financial liabilities					
Provisions	-	-	3,706	3,706	3,112
London Oil & Gas Ltd loans [1]	-	-	15,705	15,705	13,000
	24,798	**-**	**19,411**	**44,209**	**40,910**

[1] The carrying amount of non-current loans excludes £303k (2017: £606k) attributable to the non-amortised value of loan finance expenses which do not constitute liquidity risk.

Cash flow interest rate risk
Loans from LOG are subject to fixed interest rates only (albeit with low volatility LIBOR+ variation). Variations in commercial interest rates would have no impact upon the parent company nor the Company's result for the year ended 31 December 2018.

14 Financial instruments *(continued)*

Principal risks *(continued)*

Foreign exchange risk
At 31 December 2018, the Company's monetary assets and liabilities were all denominated in GBP Sterling, the functional currency of the Company. Provisions are not deemed to be monetary liabilities.

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. The Directors consider capital to include equity as described in the Statement of Changes in Equity, and loan notes, as disclosed in Notes 10 and 11. Prior to 1 January 2016, the Company has been principally funded by its parent company, reflecting the early stage and consequent relatively high risk of its activities. During 2016, 2017 and 2018, the Company made drawings of £13.55 million against its London Oil & Gas Limited loan facilities.

The Company did not hold any hedge instruments at 31 December 2018.

15 Financial commitments and contingent liabilities

The Company has authorised and committed to capital expenditure in the current year as part of the appraisal and development work programme for the licences in which it participates:

	31 December 2018 £000	**31 December 2017 £000**
Authorised but not contracted	-	1,676
Contracted	987	559
	987	**2,235**

All 2018 contracted amounts relate to contracted UKCS 2019 Licence Fee and associated 2019 OGA Levy payments together with SNS project management contracts and other commitments made against the proposed 2019 Harvey appraisal well. There are no further authorised amounts, at 31 December 2018, as the Company awaits the outcome of discussions and negotiations on the IOG Group fund raising and refinancing.

2017 contracted amounts relate to contracted UKCS 2018 Licence Fee and associated 2018 OGA Levy payments together with those contracted service awards to suppliers procured for the development of the Company's SNS oil and gas assets. Remaining authorised amounts at 31 December 2017 relate to capital expenditures on the development of the Company's SNS oil and gas assets.

Skipper:

The Skipper licence was relinquished on 11 February 2019 discharging all contingent liabilities at that date.

16 Related party transactions

Except for funds received from the ultimate parent company to pay for transactions on behalf of the Company as disclosed in Note 10, there were no additional related party transactions in the year.

17 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 these parent company and group accounts can be found on the parent company website at www.independentoilandgas.com.