IOG UK Limited

Annual Report and Audited Financial Statements

For the year ended 31 December 2018

Company Number 08619688

IOG UK 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
08619688

IOG UK 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 UK Limited (the 'Company' or 'IOGUK') 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 of three Traditional Licences and one Innovate C Licence all in the Southern North Sea ('SNS'):

- P1915 covering Block 49/21c in which lies the Southwark (previously named Vulcan South) discovery;
- P039 covering Block 49/21a in which lies the Elland (previously named Vulcan East) discovery;
- P130 covering Block 48/25a in which lies the Nailsworth (previously named Vulcan North West) discovery; and
- P2342 covering Block 48/25a which lies adjacent to the Nailsworth discovery.

IOGUK holds all licences at 100% ownership.

Vulcan Satellites – Southwark, Elland and Nailsworth

The Vulcan Satellites Hub is planned to be developed with normal unmanned installations/platforms ('NUI's) at Southwark (three wells), Elland (two wells) and Nailsworth (three wells) all tied-in to the recommissioned Thames Pipeline. All three satellites have their reservoirs in the Rotliegend Leman Sandstone.

The vessel *MV Fugro Galaxy* mobilised in late January 2018, and as part of its work programme, carried out surveys across Southwark, Elland and Nailsworth in support of the field development. This work included site surveys for platform locations and pipeline route surveys to the tie-in point at the Thames Pipeline and environmental sampling. The Environmental Impact Assessment ('EIA') for the Vulcan Satellites Hub was submitted in April 2018 in line with milestones agreed with the UK Oil and Gas Authority ('OGA').

During development engineering studies in 1H 2018 it was decided to include Southwark as part of the parent Company's Southern North Sea Phase 1 development.

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 year end, Final Investment Decision ('FID') and subsequent EIA and FDP approval was expected to occur at end Q1 2019 with first gas at Southwark twenty months later in Q4 2020, subject to project financing. At the date of this report, FID is now expected to occur at end Q3 2019 with first gas at Southwark now expected in Q1 2021.

In July 2018, Wood carried out Front End Engineering Design ('FEED') studies to assess costs and schedule the tie-in lines to the Thames Pipeline for Southwark. In November 2018, an offshore geotechnical survey for the Southwark platform was completed. Heerema also made progress with the FEED studies for the Southwark platform in 2H 2018.

Elland and Nailsworth, the other two Vulcan Satellites, will form part of the Group's Southern North Sea Phase 2 development. Given their development deferral, most of the current year 2018 fixed asset capital additions have been attributable to the Southwark development area.

Further to the Elland suspended well decommissioning paper, prepared by Acona in April 2015, IOGUK believes that the abandonment provision of £3.60 million continues to represent a reasonable cost estimate. Decommissioning of this suspended well has been targeted as part of the Vulcan Satellites Hub development program; however, as this well is not assigned for development, this decommissioning activity remains uncertain and may be further deferred subject to agreement with the OGA.

The Company's technical view and cost estimates were provided to the Competent Person, ERC Equipoise Limited; subsequently their report was released in October 2017, determining the Vulcan Satellites to contain 1P/2P/3P reserves 'Justified for Development' as follows:

Vulcan Satellites	**Gas Reserves (bcf)**			**Condensate Reserves (mmbbls)**		
Field	1P	2P	3P	1P	2P	3P
Nailsworth	60.4	99.4	147.2	0.6	1.0	1.5
Elland	39.9	55.0	72.9	0.0	0.0	0.1
Southwark	61.2	94.2	137.7	0.0	0.1	0.1
Total (arithmetic sum)	**161.5**	**248.6**	**357.8**	**0.6**	**1.1**	**1.7**

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 both costs 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 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.

Principal Risks and Uncertainties (continued)

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

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 the Company and to progress the Vulcan Satellites Hub development through to first production. Subject to the availability of finance, the Company plans to develop these 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 £215k (2017: £185k) which includes the parent company management fee of £198k (2017: £151k).

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

Funding and Liquidity

At 31 December 2018, the Company has net current liabilities of £7,905k (2017: £1,460k) 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 the Vulcan Satellites Hub development. 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 12 to the financial statements.

Related parties

Information on related parties can be found in Note 14 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, 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 UK LIMITED

Opinion

We have audited the financial statements of IOG UK 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 it's 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 at 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 (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 UK Limited

Statement of comprehensive income
for the year ended 31 December 2018

	Note	**2018** **£000**	2017 £000
Management charges		(198)	(151)
Other administrative expense		(17)	-
Impairment of exploration and evaluation assets	2	-	(34)
Operating loss		**(215)**	**(185)**
Loss for the year before tax		**(215)**	**(185)**
Taxation	4	-	-
Total comprehensive loss for the year attributable to equity holders		**(215)**	**(185)**

The Notes on pages 14 to 28 form part of these financial statements.

IOG UK 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 2017	4,180	22,204	(23,365)	3,019
Loss and total comprehensive loss for the year	-	-	(185)	(185)
At 31 December 2017	**4,180**	**22,204**	**(23,550)**	**2,834**
At 1 January 2018	4,180	22,204	(23,550)	2,834
Loss and total comprehensive loss for the year	-	-	(215)	(215)
At 31 December 2018	**4,180**	**22,204**	**(23,765)**	**2,619**

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 28 form part of these financial statements.

IOG UK Limited

Statement of financial position
at 31 December 2018

Company Number: 08619688

	Note	2018 £000	2017 £000
Non-current assets			
Property, plant and equipment: development and production	6	14,122	7,892
		14,122	**7,892**
Current assets			
Prepayments		-	200
Cash and cash equivalents	11	-	-
Total assets		**14,122**	**8,092**
Current liabilities			
Trade and other payables	8	(754)	(232)
Advances from parent company	8	(7,151)	(1,428)
		(7,905)	**(1,660)**
Non-current liabilities			
Provisions	9	(3,598)	(3,598)
Total liabilities		**(11,503)**	**(5,258)**
Net assets		**2,619**	**2,834**
Capital and reserves			
Share capital	10	4,180	4,180
Share premium		22,204	22,204
Accumulated deficit		(23,765)	(23,550)
		2,619	**2,834**

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 28 form part of these financial statements.

1 Accounting policies

Basis of preparation

IOG UK 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 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 United Kingdom Accounting Standards – FRS 101 and with those parts of Companies Act 2006 applicable to companies preparing their accounts using FRS 101.

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.

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 19 → 20.

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

Going concern

At 31 December 2018, the Company has net current liabilities of £7,905k (2017: £1,460k) 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 the Vulcan Satellites Hub development. 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)*

Oil and gas exploration, development and producing assets

The Company adopts the following accounting policies for oil and gas expenditures 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 and evaluation 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 including technical and administrative costs, 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 the point of transfer and, where appropriate, its carrying value adjusted. Following development sanction by the Board, a Field Development Plan ('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.

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 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.

1 Accounting policies *(continued)*

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

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

Costs of bringing a field into production, including the cost of facilities, wells and subsea 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 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. Depletion is calculated on a UOP basis based on the 2P reserves of the asset. Any re-assessment of reserves affects the depletion 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.

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 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.

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 a D&P 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 development and production asset. Depletion on this asset is calculated under the UOP method based on commercial reserves should the project proceed to production.

1 Accounting policies *(continued)*

Disposals

The gain or loss arising from the derecognition of an item of PPE 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 functional and presentation currency of the Company is GBP Sterling.

The Company translates foreign currency transactions into its 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 allocable to development projects, which are capitalised as part of the cost of the asset.

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 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.

1 Accounting policies *(continued)*

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.

Classification and measurement of financial assets
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).

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.

Share-based payment transactions
The fair value of share-based payments is recognised as an expense or asset with a corresponding increase in equity. The fair value is measured at the date of the transactions by reference to the fair value of assets/services acquired or the fair value of equity instruments issued.

1 Accounting policies *(continued)*

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 5 and Note 6. 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.

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

<u>Commercial Reserves</u>

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.

<u>Production volumes/recoverable reserves</u>

Annual estimates of oil and gas reserves are generated internally by the Company with external input from operator profiles and/or a 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.

<u>Commodity prices</u>

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.

<u>Fixed and variable operating costs</u>

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.

1 Accounting policies *(continued)*

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

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.

Decommissioning

The Company has obligations in respect of decommissioning the suspended well on the Elland Vulcan D&P asset, as determined by the OGA.

The extent to which a provision is recognised depends on the legal requirements at the date of decommissioning, the estimated costs and timing of the work and the discount rate applied. A full decommissioning estimate for the Vulcan Satellites asset remains uncertain until all development infrastructure has been installed and production volumes and time to abandonment has been considered. Prior to full development infrastructure and commissioning, the Company has utilised technical reports to estimate costs of abandonment.

The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised 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

Share based payment

During 2016, the Company issued shares for the transfer of the Vulcan Satellite oil and gas licence interests into the Company. This formed part of the agreement through which the parent company, IOG, acquired the Company. As a result, the fair value of the shares issued were based on the acquisition agreement for the purchase of the Company by IOG. In deriving a fair value, the various tranches for the agreement were considered and assigned a fair value based on management's assessment of probability of those payments arising based on the contractual terms and the stage of the underlying projects.

2 Operating loss

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

	2018	2017
	£000	£000
Fees payable to the Company's auditor for the audit of the Company's financial statements	17	-
Impairment of oil and gas properties	-	34
Management charges net of amounts capitalised as oil and gas assets	198	151

A comparable 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 during the year (2017: nil). The parent company provided all management services. The Company did not provide Directors and Officers Liability insurance during the year (2017: nil).

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	2017 £000
Loss for the year	(215)	(185)
Tax expense	-	-
Loss before taxes	(215)	(185)
Expected tax (credit)/charge based on the standard rate of United Kingdom corporation tax at the domestic rate of 40% (2017: 40%)	(86)	(74)
Difference in tax rates	24	-
Income not taxable/allowable	(1,281)	(2,900)
Unrecognised taxable losses carried forward	1,343	2,974
Total tax expense	-	-

b) Deferred taxation

Due to the nature of the Company's development activities, there is a long lead time in either developing or otherwise realising development 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 £30.74 million (2017: £29.84 million). Included within this figure are accelerated capital allowances of £13.92 million (2017: £7.89 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.

5 Intangible assets

	2018 £000	2017 £000
Exploration and evaluation assets		
At cost		
At beginning of year	34	6,857
Additions	-	1,069
Disposals [1]	(34)	-
Reclassified as development and production assets	-	(7,892)
At end of year	-	34
Impairments and write-downs		
At beginning of year	(34)	-
Impairment	-	(34)
Disposals [1]	34	-
At end of the year	-	(34)
Net book value		
At end of year	**-**	**-**
At beginning of year	**-**	**6,857**

On 14 June 2016, the Company acquired interests in the Vulcan Satellites from Verus Petroleum (SNS) Limited and Verus Petroleum (CNS) Limited in exchange for shares in the Company. For accounting purposes, this acquisition was treated as a share-based payment. The fair value of the share-based payment, £6.86 million, was determined to be the fair value of the consideration of the subsequent sale of the Company to IOG. As part of the agreement, the Company became obligated for the decommissioning of the Elland suspended well, which is recognised in Note 9.

Following submission of the Vulcan Satellites Hub FDP in October 2017, as per the Company's accounting policy, the Vulcan assets were transferred to PPE - development and production.

[1] Costs relating to Licence P2122 which had been relinquished in 2017, were removed from the balance sheet in 2018.

6 Property, plant and equipment

	2018 £000	2017 £000
Development and production assets		
At cost		
At beginning of year	7,892	-
Additions	6,230	-
Reclassified from exploration and evaluation assets	-	7,892
At end of the year	14,122	7,892
Impairments and write-downs		
At beginning of year	-	-
At end of the year	-	-
Net book value		
At end of year	**14,122**	**7,892**
At beginning of year	**7,892**	**-**

7 Interests in production licences

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

8 Current liabilities

	2018 £000	2017 £000
Advances from parent company	7,151	1,428
Accruals	754	232
	7,905	**1,660**

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

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

9 Non-current liabilities

	2018	2017
	£000	£000
Decommissioning provision	3,598	3,598
	3,598	**3,598**

The Company has obligations in respect of decommissioning a suspended well on the Elland Licence P039. A full decommissioning estimate for the Vulcan Satellites asset remains uncertain until all development infrastructure has been installed and production volumes and time to abandonment has been considered. As per Note 1, the current estimate for abandonment of the Elland suspended well of £3.60 million is based upon a recent technical valuation.

10 Equity share capital

	Shares Number	**Share capital £000**
Authorised, allotted, issued and fully paid Ordinary shares of £1 each		
At 1 January 2018	4,180,100	4,180
At 31 December 2018	**4,180,100**	**4,180**

11 Cash and cash equivalents

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

12 Financial instruments

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

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

12 Financial instruments *(continued)*

Principal risks

Liquidity risk
The Company holds no cash resources but is funded entirely by its parent company and therefore has no liquidity risk separate from that of its parent company. 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 its 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	7,151	-	-	7,151	7,151
Accruals	754	-	-	754	754
	7,905	**-**	**-**	**7,905**	**7,905**
31 December 2017					
Current financial liabilities					
Advances from parent	1,428	-	-	1,428	1,428
Accruals	232	-	-	232	232
	1,660	**-**	**-**	**1,660**	**1,660**

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.

12 Financial instruments *(continued)*

Principal risks *(continued)*

Foreign exchange risk
The Company carried limited exposure to foreign exchange risk during the period to 31 December 2018 (2017: nil). 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.

13 Financial commitments and contingent liabilities

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

	2018	2017
	£000	£000
Authorised but not contracted	-	2,289
Contracted	300	533
	300	**2,822**

All 2018 contracted amounts relate to contracted UKCS 2019 Licence Fees, associated 2019 OGA Levy payments and project management commitments only.

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.

14 Related party transactions

Except for funds received from the ultimate parent company for transactions paid on behalf of the Company as disclosed in Note 8, there were no additional related party transactions in the year.

15 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.