Company Registration No. 0715529

Perenco Gas (UK) Limited

Annual Report and Financial Statements

31 December 2017

Perenco Gas (UK) Limited

Annual Report and Financial Statements 2017

Contents

Strategic report

The directors present their strategic report for the year ended 31 December 2017.

Review of Business

The Company's objective is to operate and decommission North Sea oil and gas fields which are nearing the end of their productive life. In recent years the Company has been able to augment its interest in such fields by transfers from Perenco UK Limited, its parent company

During the year Perenco UK Limited transferred 100% of its interests in the Lancelot, Excalibur and Pickerill fields to the Company, bringing the Company's total interest in these fields to 98%, 100% and 94.8% respectively.

The loss for the year ended 31 December 2017 amounted to £2.6m (2016: loss of £14.2m). The gross profit margin has increased to -15.6% (2016: -220%) as a result of increased turnover following the above field transfers noted above.

The balance sheet on page 11 of the Annual Report and Financial Statements shows that the Company's overall equity at the end of the year has reduced from £6.6m at 31 December 2016 to £4.0m at 31 December 2017. The reduction is due to the loss for the period.

Key performance indicators

In conjunction with the businesses of the wider UK group, the directors use a range of financial and non-financial Key Performance Indicators (KPI's), reported on a periodic basis, to monitor the Company's performance over time. In assessing financial indicators the directors consider it appropriate to evaluate the closing financial position of the Company and its performance over the preceding year as detailed below. The main non-financial indicator considered by the directors is management of Health and Safety and is dealt with in the next section.

Principal risks and uncertainties

a) Operations

Successful delivery of major projects is material to Perenco's future growth, and substantial delay to, or failure to complete, these projects constitute significant risks to the Company's prospects, reputation and financial position. The Company's projects are mainly focused on decommissioning and in optimising operational performance and output from existing producing assets prior to the decision to decommission. This remains the critical success factor for the Company. Risk is mitigated by strong internal controls surrounding project delivery.

b) Financial Risk

The most significant financial risks to which the Company is exposed are movements in gas prices and the cost of decommissioning. The Company considers that volatility in gas prices is a regular part of its business environment, and the Company does not systematically hedge through financial instruments to mitigate these risks. The Company has the financial support from Perenco Uk Limited to ensure that decommissioning projects can be adequately funded.

c) Health and Safety

Health and safety is one of Perenco's core priorities and we continue to target risk and impact reduction. In association with Perenco UK Limited, the Company has a Health and Safety Management system in place to ensure that it conducts its business in a manner that protects the health and safety of employees of Perenco UK Limited, contractors and anyone who could be affected by our activities. Our goals are:

- no harm to people;
- a safe and healthy working environment for all personnel;
- no impact on the health and safety of our neighbours; and
- no accidents.

These goals can only be achieved by the active participation of every employee. The Company is committed to continuous improvements in health and safety performance and sets annual performance targets, supported by action plans. These are monitored closely and the Company takes further action if performance falls below the targets set.

Strategic report (continued)

d) Major Hazards

The Company recognises that our operations involve Major Hazards and in association with Perenco UK Limited is committed to providing the necessary leadership so as to ensure that the resulting risks to people, the environment and property are as low as reasonably practicable. During 2012 a Board Committee was set up in association with Perenco UK Limited to ensure that appropriate leadership is in place at all levels of the UKorganisation. The Committee also monitors Major Hazard safety performance through the analysis of appropriate key performance indicators and ensures that all necessary action is taken to correct underperformance and to ensure continuous improvement.

Further information on our health, safety and environmental performance can be found on the Perenco website.

e) Information security, intellectual property and assets

We operate in a complex computing environment and the threat of cyber attack against our industry remains high. In association with Perenco UK Limited we continued to improve our system of internal controls to endeavour to ensure they are robust enough to meet these challenges.

Environmental matters

In association with Perenco UK Limited, the Company has an Environmental Management system in place to endeavour to ensure that it conducts its business in a manner that protects the environment. Our goals are:

- no damage to the environment; and
- to minimise our emissions.

These goals can only be achieved by the active participation of every Perenco employee. The Company is committed to continuous improvements in environmental performance and sets annual performance targets, supported by action plans. These are monitored closely and the Company takes further action if performance falls below the targets set.

The environmental management system has been independently certified to be in line with internationally accepted good practice as defined in ISO 14001.

Employment policies

The Company does not have any employees.

Details of significant events since the balance sheet date are contained in note 20 to the financial statements.

Approved by the Board of Directors and signed on its behalf by;

Arnaud Le Blanc
Director
10 July 2018

Perenco Gas (UK) Limited
8 Hanover Square
London
W1S 1HQ

Directors' report

The directors present their annual report and audited consolidated financial statements for the year ended 31 December 2017.

Directors and their interests

The directors who served during the year were as follows:

Nicholas Fallows
Jonathan Parr
Jan Rusin (resigned 29 March 2017)
Kim Kallmeyer (resigned 18 January 2018)
Brian James
Franck Dy
Laurent Combe (appointed 18 April 2017)
Michael Richardson (appointed 18 August 2017)
Arnaud Le Blanc (appointed 11 September 2017)

No director in office at the end of the year had any beneficial interest in the shares of the Company or any fellow subsidiary undertaking of the Company.

Going Concern

The Company's business activities, key financial risks, performance and position are set out in this report. The financial position of the Company is set out in the financial statements and related notes.

The Company is self-funding and therefore meets its day-to-day working capital requirements through net proceeds received from its gas production. The Company also continues to have the support from its parent company, Perenco UK Limited, who has confirmed that they will continue to financially support Perenco Gas UK Limited for a period of at least 12 months from the date of these financial statements.

On the basis of current financial projections and facilities available, the directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future and, accordingly, consider that it is appropriate to adopt the going concern basis in preparing the financial statements.

Information to auditor

Each of the directors at the date of approval of this report confirms that:

(1) so far as the director is aware, there is no relevant audit information of which the auditor is unaware; and
(2) the director has taken all steps that he/she ought to have taken as a director to make himself/herself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

Donations

There were no political or charitable donations made in the current year.

Dividends

The directors do not propose payment of a dividend in 2017.

Disabled employees

The Company's policy in respect of disability have been set out in the strategic report.

Perenco Gas (UK) Limited

Directors' report (continued)

Post Balance sheet events

Details of significant events since the balance sheet date are contained in note 20 to the financial statements.

Auditor

Deloitte have indicated their willingness to be reappointed for another term and appropriate arrangements have been put in place for them to be deemed reappointed as auditor in the absence of an Annual General Meeting.
Approved by the Board of Directors and signed on its behalf by:

Arnaud Le Blanc
Director
10 July 2018

Perenco Gas (UK) Limited
8 Hanover Square
London
W1S 1HQ

Directors' Responsibilities Statement

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable laws and regulations.

Company law requires the directors to prepare such financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and Article 4 of the IAS Regulation. 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, International Accounting Standard 1 requires that directors:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- make an assessment of the Company's ability to continue as a going concern.

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 to enable them to ensure that the financial statements comply with 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.

Independent auditor's report to the members of Perenco Gas (UK) Limited

Report on the audit of the financial statements

Opinion

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2017 and of its loss for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements of Perenco Gas (UK) Limited (the 'company') which comprise:

- the income statement;
- the balance sheet;
- the statement of changes in equity;
- the cash flow statement; and
- the related notes 1 to 20.

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.

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.

Conclusions relating to going concern

We are required by ISAs (UK) to report in respect of the following matters where:

- the directors' use of the going concern basis of accounting in preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

We have nothing to report in respect of these matters.

Independent auditor's report to the members of Perenco UK Limited (continued)

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 respect of these matters.

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: 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.

Independent auditor's report to the members of Perenco UK Limited (continued)

Report on other legal and regulatory requirements

Opinions 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 the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

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 any material misstatements in the strategic report or the directors' report.

Matters on which we are required to report by exception

Under the Companies Act 2006 we are required to report in respect of the following matters 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.

We have nothing to report in respect of these matters.

Anthony Matthews

Anthony Matthews FCA (Senior Statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
London, UK
10 July 2018

Perenco Gas (UK) Limited

Income statement
For the year ended 31 December 2017

	Notes	2017 £'000	2016 £'000
Revenue	3	**13,852**	**3,047**
Cost of sales			
Production and operating costs	4	(11,834)	(3,202)
Depreciation, depletion and amortisation	4, 9	(4,180)	(6,533)
Gross loss		**(2,162)**	**(6,688)**
Administrative income / (expenses)	5	(2)	(2)
Other operating expenses	6	(40)	(10,863)
Operating loss		**(2,204)**	**(17,553)**
Finance costs	7	(947)	(645)
Loss before taxation		**(3,151)**	**(18,198)**
Tax	8	555	4,028
Loss for the financial year		**(2,596)**	**(14,170)**

All transactions arise from continuing operations.

There were no income or expenses in the periods presented other than disclosed above. Accordingly, no separate statement of comprehensive income has been prepared.

Perenco Gas (UK) Limited

Balance sheet
At 31 December 2017
Company registration number: 0715529

	Notes	2017 £'000	2016 £'000
Non-current assets			
Property, plant and equipment	9	14,702	9,036
Deferred tax asset	11	66,120	22,866
		80,822	**31,902**
Current assets			
Trade and other receivables	10	91,651	39,790
Cash and cash equivalents		1	1
		91,652	**39,791**
Total assets		**172,474**	**71,693**
Current liabilities			
Trade and other payables	13	(11,404)	(392)
Non-current liabilities			
Decommissioning provision	12	(157,031)	(64,666)
Total liabilities		**(168,435)**	**(65,058)**
Net assets		**4,039**	**6,635**
Equity			
Share capital	14	1	1
Retained earnings		4,038	6,634
Total equity		**4,039**	**6,635**

These financial statements were approved by the Board of Directors and authorised for issue on 10 July 2018. They were signed on its behalf by:

Arnaud Le Blanc
Director

Perenco Gas (UK) Limited

Statement of changes in equity
For the year ended 31 December 2017

	Share Capital £'000	Retained earnings £'000	Total equity £'000
At 31 December 2015	1	20,804	20,805
Total comprehensive loss for the year	-	(14,170)	(14,170)
At 31 December 2016	**1**	**6,634**	**6,635**
Total comprehensive loss for the year	-	(2,596)	(2596)
At 31 December 2017	1	4,038	4,039

Cash flow statement
For the year ended 31 December 2017

Cash flow	Notes	2017 £'000	2016 £'000
Net cash from operating activities	16	**283**	**263**
Income taxes received		-	-
Net cash from operating activities		**283**	**263**
Cash flows from investing activities			
Expenditure on development and production assets		(283)	(263)
Net cash used in investing activities		**(283)**	**(263)**
Cash flows from financing activities			
Interest paid		-	-
Net cash used in financing activities		**-**	**-**
Net (decrease) in cash and cash equivalents		-	-
Cash and cash equivalents at the beginning of the year		1	1
Cash and cash equivalents at the end of the year		**1**	**1**

Notes to the financial statements
Year ended 31 December 2017

1. Accounting policies

(a) General

Perenco Gas (UK) Limited is a company incorporated in the United Kingdom under the Companies Act. The address of the registered office is: 8 Hanover Square, London W1S 1HQ. The nature of the Company's operations and are set out in the Strategic report.

Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union, International Financial Reporting Interpretation Committee (IFRIC) interpretations and the Companies Act 2006.

The financial statements are prepared under the historical cost convention and have been prepared under a going concern basis as discussed in the Directors' report on page 4. The accounting policies have been applied consistently in all years presented.

Adoption of new and revised standards

The following new and revised Standards and Interpretations to published standards were adopted by the Company for the financial year beginning 1 January 2017:

IAS 12 (amended)	Recognitition of deferred tax assets for unrealised losses
IAS 7 (amended)	Disclosure initiative
2014-2016 Cycle	Annual Improvements to IFRS

The adoption of these Standards and Interpretations has not had any significant impact of the amounts reported in these financial statements but may impact the accounting for future transactions and arrangements.

At the date of authorisation of these financial statements, the following Standards and Interpretations were in issue but not yet effective and therefore not adopted:

IFRS 9	Financial Instruments (effective 1 January 2018)
IFRS 15	Revenue from Contracts with Customers (effective 1 January 2018)
IFRS 16	Leases (effective 1 January 2019)

The Directors do not expect the adoption of IFRS 9, 15 and 16 listed above, to have a material impact on the financial statements of the Company in future periods.

1. Accounting policies (continued)

(b) Oil and gas assets

The Company uses the full cost method of accounting for exploration, evaluation, development and production expenditure in relation to oil and gas assets, having regard to the requirements of IFRS 6 *'Exploration for and Evaluation of Mineral Resources'*. These costs are capitalised in separate geographical costs pools ("full cost pools") having regard to the operational structure of the Company.

Oil and gas assets: exploration and evaluation

Exploration and evaluation ("E&E") costs are initially capitalised as 'intangible assets', in accordance with IFRS 6. Such E&E costs may include costs of licence acquisition, technical services and studies, seismic acquisitions and exploration drilling and testing.

Tangible assets used in E&E activities are classified as property, plant and equipment.

Intangible E&E assets are not depreciated and are carried forward until the existence (or otherwise) of proved reserves has been determined. If proved reserves have been discovered, the relevant E&E assets are then reclassified as development and production assets within property, plant and equipment and depreciated using the method described below. Intangible E&E assets that are determined not to have resulted in the discovery of proved reserves and cannot be associated with an established full cost pool are written off at the date of determination, whereas those that are associated with an established pool are carried forward and amortised over the total reserves of the pool, subject to there being no impairment of the pool as a whole.

Oil and gas assets: development and production

Development and production assets are accumulated under the principle of full cost accounting on a field-by-field basis and represent the cost of developing proved reserves discovered and bringing them into production, together with the exploration and evaluation expenditures incurred in finding proved reserves.

The net book values of producing assets are depreciated on a field-by-field basis using the unit of production method by reference to the ratio of production in the period to the related proved reserves of the field.

Impairment of oil and gas assets (Impairment review)

An impairment review test is carried out if there is a significant reason for the directors to believe that impairment could have occurred. This test is to assess whether the carrying amount of each field or full cost pool (as applicable) exceeds the recoverable amount. The recoverable amount is the higher of an asset's fair value less cost to sell, and its value in use as defined by IAS 36 *'Impairment of assets'*. The value in use is determined by discounting the anticipated post-tax net cash flows at a risk adjusted discount rate using proved and probable reserves. Where a fair value less cost to sell method is used, the carrying amount includes any deferred tax asset or liability associated with the capitalised costs in the cost pool. Any deficiency arising under this comparison is recognised in the income statement. An impairment test for an exploration and evaluation asset is conducted on a full cost pool basis. An impairment test of a development or production asset is undertaken for the particular cash generating unit which is generally the field for non-operated assets or the central terminal for operated assets.

Reversal of impairment losses recognised in prior years is recorded when there is an indication that the impairment losses recognised for the assets no longer exist or have decreased. The reversal is recorded in the income statement.

(c) Joint arrangement accounting policy

The Company is engaged in oil and gas exploration, development and production through unincorporated joint arrangements. The Company accounts for its proportionate share of the assets, liabilities, revenue and expenses with items of a similar nature presented on a line-by-line basis for those joint arrangements which are jointly controlled operations.

Notes to the financial statements
Year ended 31 December 2017

1. **Accounting policies (continued)**

(c) Joint arrangement accounting policy (continued)

The Company considers these assets as jointly controlled when they cannot make significant investment or operating decisions without the unanimous approval of the other parties sharing control. Where the Company acts as operator for the joint operation, the liabilities and receivables (including amounts due to or from non-operating partners) of the joint operation are included in the Company balance sheet.

Joint arrangements that involve the establishment of a separate entity in which each venturer has an interest are referred to as joint ventures.

The Company reports its interests in joint ventures using the equity method of accounting. Under the equity method, the investment in a joint venture is carried in the balance sheet at cost, plus post acquisition changes in the Company's share of net assets of the joint venture.

(d) Decommissioning provisions

A provision for the cost of decommissioning of an asset and for site restoration at the end of the asset's producing life is recognised as that asset is installed. The amount provided is the discounted amount of the estimated cost of the future decommissioning event. That amount is capitalised as part of the cost of the oil and gas assets and depleted in accordance with the oil and gas assets' accounting policy above. Periodically the discounted value of the provision is re-assessed. Any adjustment arising from the re-assessment of the estimated cost of decommissioning is capitalised whilst the adjustment arising from the unwinding of the discount is taken to the income statement.

(e) Revenue recognition

Revenue represents the value of sales exclusive of related sales taxes of oil and gas arising from upstream operations and is recognised at market value when the oil has been lifted or the gas has been delivered and title has passed.

Interest income is recognised when it is probable that the economic benefits will flow to the Company, and the amount of revenue can be measured reliably. Interest income in the Company relates to interest received on bank deposits.

(f) Foreign currencies

Transactions in currencies other than Pounds Sterling are recorded at the relevant rate of exchange prevailing at the date of the transaction. Monetary assets and liabilities denominated in currencies other than Pounds Sterling at the balance sheet date are reported at the rates of exchange prevailing at that date. Any gain or loss arising from a change in exchange rates subsequent to the date of the transaction is included as an exchange gain or loss in the income statement.

(g) Taxation

The tax expense represents the sum of the charges and credits for current and deferred tax.

Current tax payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are non-taxable or deductible. Current tax is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

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, and is accounted for using the balance sheet liability method. 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.

Notes to the financial statements
Year ended 31 December 2017

1. **Accounting policies (continued)**

(g) Taxation (continued)

Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each balance sheet 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 income statement, 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.

Deferred tax is recognised at acquisition as part of the assessment of fair value of assets and liabilities acquired.

Other taxes, which include value added tax and sales tax, represent the amount receivable or payable to local authorities in the countries where the Company operates and are charged to the income statement.

(h) Financial instruments

Financial assets and liabilities are recognised on the Company's balance sheet when the Company becomes party to contractual provisions of the instrument. The Company has not entered into any derivative financial instruments during the year presented.

1) **Cash and cash equivalents**

   Cash and cash equivalents (which are presented as a single class of assets on the face of the balance sheet) comprises cash at bank.

2) **Trade receivables**

   Trade receivables represent amounts owed for the sale of oil and gas. The carrying value of these assets is approximate to their fair value

3) **Trade payables**

   Trade payables principally comprise amounts outstanding for trade purchase and ongoing costs. The carrying amounts of trade payables approximates to their fair value.

2. Critical judgements in applying the Company's accounting policies

In the process of applying the Company's accounting policies, which are described in note 1, the directors have made the following judgements that have the most significant effect on the amounts recognised in the financial statements (apart from those involving estimations, which are dealt with below).

a) Recoverability of production and development assets

Under the full cost method of accounting for production and development costs, such costs are capitalised by reference to appropriate cost pools, and are assessed for impairment when circumstances suggest that the carrying amount may exceed its recoverable value. This assessment involves judgement as to (i) the likely life of the field, (ii) future revenues and operating costs with which the asset in question is associated, (iii) the discount rate to be applied to such revenues and costs for the purpose of deriving a recoverable value, and (iv) the oil price assumption. Note 9 discloses the carrying amounts of the Company's production and development assets.

Key sources of estimation uncertainty

The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

a) Reserves

Development and production assets within property, plant and equipment are depreciated on a unit of production basis at a rate calculated by reference to proved developed producing reserves estimated using the standards required by the US Securities Exchange Commission ("SEC"). Proved reserves estimates are based on a number of underlying assumptions, including oil and gas prices, future costs, oil and gas in place and reservoir performance, which are inherently uncertain. Proved reserves estimates are supported by reserves reports for the Company which are reviewed by independent petroleum reservoir engineers.

The level of estimated commercial reserves is also a key determinant in assessing whether the carrying value of any of the Company's development and production assets has been impaired.

The carrying amount of development and production assets at 31 December 2017 is shown in note 9.

b) Decommissioning

The provision for decommissioning obligations depends on the cost and timing of decommissioning works, legal requirements and the discount rate to be applied to such costs. The directors have conducted an internal review of these factors, based on information currently available, in the calculation of this provision.

The carrying amount of the decommissioning provisions at 31 December 2017 are shown in note 12.

c) Impairment of assets

Assets are carried at cost in the balance sheet provided they will result in an economic benefit. When external factors indicate the loss of economic benefit, an impairment test is carried out to measure whether impairment is necessary. The impairment review compares an estimation of the future cash inflows with the original investment. No impairment has been recognised in 2017 (2016: £nil).

Notes to the financial statements
Year ended 31 December 2017

3. Revenue

	2017 £'000	2016 £'000
Gas sales	13,493	2,941
Condensate sales	359	106
Total operating revenue	13,852	3,047

4. Cost of sales

	2017 £'000	2016 £'000
Operating costs	11,834	3,202
Depletion, depreciation and amortisation	4,180	6,533
	16,014	9,735

5. Administrative expenses

	2017 £'000	2016 £'000
General administration costs	2	2
	2	2

None of the directors are employees of the Company and the directors received no remuneration from the Company during the year. It is not practicable to allocate their remuneration between their services for the Company during the year and their services for other Perenco group companies. Auditor's remuneration has been borne by the Parent Company.

6. Other operating expenses

	2017 £'000	2016 £'000
Movement in decommissioning provision estimate	40	10,863
	40	10,863

Other operating expenses relate to the movement in the decommissioning provision on fields which have no proved reserves as at 31 December 2017.

Notes to the financial statements
Year ended 31 December 2017

7. Finance costs

	2017 £'000	2016 £'000
Unwinding of discount on decommissioning provisions (note 12)	947	645
	947	645

8. Taxation

	2017 £'000	2016 £'000
a) Analysis of taxation (credit)/expense in the period		
Corporate income taxes:		
Adjustments for prior periods	-	(48)
	-	**(48)**
Deferred taxation:		
Origination and reversals of temporary differences	(1,145)	(3,980)
Deferred PRT	590	-
	(555)	**(3,980)**
Total taxation charge/(credit) for the year	**(555)**	**(4,028)**

Notes to the financial statements
Year ended 31 December 2017

8. Taxation (continued)

	2017 £'000	2016 £'000
b) Factors affecting tax expense for the period		
Loss on ordinary activities before tax	(3,151)	(18,198)
Tax on profit at the ring fence UK corporation tax rate of 40% (2016: 40%)	(1,260)	(7,280)
Effects of:		
Expenses that are taxed or deductible at different rates	(32,156)	-
Transfer of deferred tax from related company	31,123	573
Adjustments in respect of prior periods	350	(35)
Adjustments to deferred tax relating to change in tax rates	-	2,714
Changes in the recognition of deferred tax assets	798	-
PRT	590	-
Total taxation credit in the year	**(555)**	**(4,028)**

The UK tax rate shown above of 40% comprises the supplementary charge to corporation tax (SCT) of 10% (2016: 10%) as well as the corporation tax (CT) rate of 30% (2016: 30%) on UK profits within the oil and gas ring-fence. The effective standard rate of corporation tax for 2017 of 19.25% (2016: 20%) is applied to all other profits.

Notes to the financial statements
Year ended 31 December 2017

9. Property, plant and equipment

	Development and production assets £'000
Cost	
Balance at 1 January 2017	26,451
Additions	283
Transfer from group company	10,167
Change in estimate of decommissioning provisions	(604)
Balance at 31 December 2017	36,297
Depletion and depreciation	
Balance at 1 January 2017	17,415
Charge for the year	4,180
Balance at 31 December 2017	21,595
Net book value	
Balance at 31 December 2016	9,036
Balance at 31 December 2017	14,702

In accordance with the Company's policy, the cost of decommissioning the Development and production assets was reviewed during the year. Changes in estimates of the expected timing of costs of the decommissioning obligations are dealt with prospectively by recording an adjustment to the provision (note 12), and a corresponding adjustment to the Development and production asset cost with the exception of fields which have no economical reserves at 31 December 2017 where the movement is taken directly to the income statement (note 6).

During the year Perenco UK Limited transferred 100% of its interest in the Excalibur, Lancelot and Pickerill fields to the Company. The value of development and production assets transferred were £8,816k, £365k and £986k respectively.

Notes to the financial statements
Year ended 31 December 2017

10. Trade and other receivables

	2017 £'000	2016 £'000
Trade receivables	3,614	258
Amounts due from group companies	87,992	38,624
Other receivables	-	902
Prepayments and accrued income	45	6
	91,651	39,790

None of the Company's trade receivables are past due (2016: none).

An allowance for impairment is made where there is an identified loss event which, based on previous experience, is evidence of a reduction in the recoverability of the cash flows.

11. Deferred tax

Deferred tax asset

	2017 £'000	2016 £'000
At 1 January	22,866	13,582
Deferred tax movement in the year (note 8)	555	3,980
Transfer from group company	42,699	5,304
At 31 December	66,120	22,866

During the year Perenco UK Limited transferred 100% of its interests in the Excalibur, Lancelot and Pickerill fields to the Company. Deferred tax assets of £7,282k, £15,994k and £19,423k respectively were transferred to the Company.

During 2016 Perenco UK Limited transferred 100% of its interests in the Galahad, Guinevere, Malory and Mordred fields to the Company. Deferred tax assets of £2,763k, £1,159k, £790k and £592k respectively were transferred to the Company.

11. Deferred tax (continued)

Deferred tax analysis

The deferred taxation balances are analysed as follows according to the nature of the differences.

	2017 £'000	2016 £'000
Accelerated capital allowances	(5,490)	(3,350)
Decommissioning expenditure	62,812	25,866
Unused tax losses	2,206	350
Deferred PRT	10,986	-
Other temporary timing differences	(4,394)	-
Net deferred tax asset provided	66,120	22,866

A deferred tax asset has been recognised in respect of £66,120k (2016: £22,866k) as it is considered probable that there will be future taxable profits available and these tax reliefs will be received.

12. Decommissioning provision

The decommissioning provision provided for is expected to be incurred between 2018 and 2024.

The provision is the discounted value of the directors' current price estimates using existing technology, at current prices. Decommissioning cost estimates have been inflated to the date of decommissioning at 2% (2015: 2%) and discounted back to the year end at 1.2% (2016: 1.3%). Any adjustment arising from the re-assessment of the estimated cost of decommissioning is capitalised (see note 9) whilst the adjustment arising from the unwinding of the discount is taken to the profit and loss account as a finance cost (note 7). On assets where no economical reserves remain, the adjustment arising from the re-assessment of the estimated cost of decommissioning is taken to the income statement (note 4).

	2017 £'000	2016 £'000
Balance at the beginning of the year	64,666	31,240
Transfer from group company	99,064	18,579
Change in estimate	(564)	14,451
Amounts utilised	(7,082)	(249)
Unwinding of discount (note 7)	947	645
	157,031	64,666

Notes to the financial statements
Year ended 31 December 2017

12. Decommissioning provision (continued)

	2017 £'000	2016 £'000
Of which:		
Due within one year	31,454	4,022
Due after more than one year	125,577	60,644
	157,031	64,666

During the year Perenco UK Limited transferred 100% of its interests in the Lancelot, Excalibur and Pickerill fields to the Company. Decommissioning liabilities of £22,525k, £26,996k and £49,543k respectively were transferred to Perenco Gas (UK) Limited. During 2016, Perenco UK Limited transferred 100% of its interests in the Galahad, Guinevere, Malory and Mordred fields to the Company. Decommissioning liabilities of £7,936k, £2,576k, £6,753k and £1,315k respectively were transferred to the Company.

13. Trade and other payables

	2017 £'000	2016 £'000
Accruals	4,449	2
Amounts payable to group companies	4,650	390
Corporate taxation	-	-
Other creditors	2,305	-
	11,404	392

Amounts payable to group companies are repayable on demand and are non interest bearing.

14. Equity

Called-up share capital

	No. of shares	£'000
Ordinary shares		
Authorised shares of £1 each		
At 31 December 2016 and 31 December 2017	1,000	1
Allotted, called up and fully paid		
At 31 December 2016 and 31 December 2017	1,000	1

15. Financial instruments

Financial risk management
The Company monitors and manages the financial risks relating its operations on a continuous basis. These include the cost of decommissioning, natural gas price risk, credit, and liquidity risks. The Company's significant financial instruments are trade and other receivables and trade payables.

Capital risk management
The Company manages its capital to ensure that it will be able to continue as a going concern whilst maximising return to shareholders. The capital structure of the Company consists of intercompany amounts borrowed from the Parent company as disclosed in note 13, cash and equivalents, and equity attributable to equity holders of the Company, comprising issued capital, reserves and retained earnings.
The Company had no external borrowings at 31 December 2017 (2016: none).

Oil and gas price risk
A significant financial risk to which the Company is exposed are movements in gas prices. The Company considers that volatility in gas prices is a regular part of its business environment. The Company does not systematically hedge through financial instruments to mitigate these risks.

Credit risk
Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Company.
The Company controls credit risk by requiring systematically a letter of credit as part of the sale agreement, except for customers with a good credit history (major international oil groups and national oil companies).
The carrying amount of financial assets recorded in the financial statements represents the Company's maximum exposure to credit risk without taking account of any collateral obtained.

Liquidity risk
The Company is dependent on its parent undertaking, Perenco UK Limited, to provide liquid resources.

Fair values of financial assets and liabilities

At 31 December 2017 and 2016 the carrying amounts of cash, cash equivalent and short-term deposits, trade and other receivables (note 10), and trade and other payables (note 13) approximated their fair values due to the short-term maturities of these assets and liabilities.

(a) Categories of financial instruments

The Group's financial instruments, grouped according to the categories defined in IAS 39 'Financial instruments: Recognition and Measurement', were as follows:

	2017 £'000	2016 £'000
Financial assets		
Loans and receivables (including cash and cash equivalents)	91,651	39,791
Financial liabilities		
Financial liabilities measured at amortised cost	(11,404)	(392)
	80,247	39,399

15. **Financial instruments (continued)**

(b) Fair value of financial instruments

(b) The fair values of financial assets and financial liabilities are determined as follows:

- the fair values of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices; and
- the fair value of derivative instruments are calculated using quoted prices.

The fair value of each category of financial asset and liability is not materially different from the carrying value presented for either 2017 or 2016.

16. **Notes to the cash flow statement**
Reconciliation of operating profit to cash generated by operations

	2017 £'000	2016 £'000
Cash flows from operating activities:		
Operating loss	(2,204)	(17,553)
Adjustments for:		
Depreciation, depletion and amortisation	4,180	6,533
Movement in decommissioning provision in excess of net book value	40	10,863
Operating cash flow prior to working capital changes	2,016	(157)
Increase/(decrease) in receivables	(5,663)	517
Increase in creditors	11,012	152
Decrease in provisions	(7,082)	(249)
Net cash from operating activities	283	263

Cash and cash equivalents (which are presented as a single class of assets on the face of the balance sheet) comprise cash at bank and other short-term liquid investments with a maturity of three months or less.

17. **Capital commitments**

The Company is committed to its share of future exploration, development, operating and decommissioning costs beyond 2017 under the terms of its North Sea licence agreements.

18. Controlling party

Perenco Gas (UK) Limited is a 100% subsidiary of Perenco UK Limited which is incorporated in United Kingdom.

Perenco UK Limited, a company incorporated in the UK and registered in England and Wales, is the immediate parent company and the smallest group of undertakings, of which Perenco Gas (UK) Limited is a member, for which group financial statements are prepared. The address at which Perenco UK Limited financial statements are available is 8 Hanover square, London, W1S 1HQ.

Perenco International Limited, a company incorporated in The Bahamas, is the ultimate controlling party and the largest group of undertakings for which Group financial statements are prepared and is owned and controlled by the Perrodo family and trusts for their benefit.

The financial statements of Perenco International Limited are not available to the public.

19. Related parties

The following table provides the total amounts of transactions which have been entered into with related parties for the relevant financial year:

	Charge for 2017 £'000	Charge for 2016 £'000	Net Debtor/ (Creditor) 2017 £'000	Net Debtor 2016 £'000
Charged to affiliated companies:				
Perenco UK Ltd	49,368	9,198	87,992	38,236
Charged by affiliated companies:				
Perenco UK Ltd	(4,262)	(232)	(4,650)	-
Perenco Holdings	(23)	(25)	-	(2)
Perenco Oil Trading	(3)	-	-	-
	45,080	8,941	83,342	38,234

Sales and purchases from related parties are made at normal market prices. Outstanding balances at year end are unsecured and settlement occurs in cash. There have been no guarantees provided or received for any related party receivables. For the year end the Group has not raised any provision for doubtful debts relating to amounts owed by related parties (2016: £nil).

20. Post balance sheet events

No material events have occurred since the prior date which requires disclosure.