Company Registration No: 3468792

PREMIER OIL AND GAS SERVICES LIMITED

Annual report and financial statements
for the year ended 31 December 2019

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OFFICERS

Directors
A G Gibb
A R C Durrant
R A Rose

Secretary
D A Rose

Registered Office
23 Lower Belgrave Street
London
SW1W 0NR
England

Auditor
Ernst & Young LLP
Statutory Auditor
1 More London Place
London
SE1 2AF
United Kingdom

STRATEGIC REPORT

The directors present their strategic report on the company for the year ended 31 December 2019.

RESULTS
For the year to 31 December 2019 the company made a profit of £836,000 (2018: profit of £274,000).

BUSINESS REVIEW
The company was incorporated on 20 November 1997 and is part of the Premier Oil plc group of companies. The principal activity of the company is, and will continue to be, the provision of support services to companies in the oil and gas industry. The directors do not foresee any changes in the company's activities in the immediate future.

<u>Key performance indicators</u>
The Premier Oil plc group manages its operations on a group wide basis. For this reason, the company's directors believe that further key performance indicators for the company are not appropriate for the understanding of the development, performance or position of the company.

PRINCIPAL RISKS AND UNCERTAINTIES
The company's activities expose it to a number of financial risks including cash flow risk, credit risk and liquidity risk. The company does not enter into derivative financial instruments and does not hold or issue derivative financial instruments for speculative purposes.

Cash flow risk: the company has a loan receivable from its immediate parent company with an interest rate which is linked to LIBOR. Therefore, the company is exposed to changes in interest rates. The company's largest currency exposure is to receipts and expenditures in United States dollars. The company does not use financial derivatives or enter into financial exchange contracts to hedge its exposure to foreign currency risk. However, the Group's treasury function may take out contracts to manage this risk at a group level.

Credit risk: the company's principal financial assets are trade debtors, bank balances and amounts owed by the immediate parent company. The credit risk on liquid funds is limited because counterparties are banks with high credit-rating assigned by international credit-rating agencies.

Liquidity risk: liquidity risk is managed by the Group's treasury company which has access to third party funding sources to enable the company's obligations to be met as they fall due.

The Company has disclosed a material uncertainty regarding its ability to continue as a going concern. Please refer to the "Going Concern" section of the Directors' report for further information.

Approved by the Board and signed on its behalf by:

R A Rose
DIRECTOR

30 June 2020

DIRECTORS' REPORT

The directors present their annual report on the affairs of the company for the year ended 31 December 2019.

DIVIDENDS
The directors did not recommend the payment of a dividend (2018: £nil).

SUBSEQUENT EVENTS
Refer to detailed note 15 to the Financial Statements regarding the corporate actions and the macro-economic environment.

DIRECTORS
The directors who served throughout the year were as follows:

R A Allan	resigned 25 June 2020
A R C Durrant	
A G Gibb	
R A Rose	

FINANCIAL RISK MANAGEMENT
The company is exposed to a range of financial risks through its financial assets and liabilities. Further details are provided in the "Principal Risks and Uncertainties" section to the Strategic Report.

SUPPLIER PAYMENT POLICY
The company's policy, which is also applied by the group, is to settle terms of payment with suppliers when agreeing the terms of each transaction to ensure that suppliers are made aware of the terms of payment and to abide by the terms of payment.

DIRECTORS' INDEMNITIES
The company has made qualifying third party indemnity provisions for the benefit of its directors which were made during the year and remain in force at the date of this report.

FUTURE DEVELOPMENTS
The directors do not foresee any changes in the company's activities in the immediate future.

GOING CONCERN
The directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the financial statements. The Company is part of the Premier Oil plc group (the "Group") and is reliant on the provision of financial support from its parent and other group companies. In addition, the Company is a guarantor company on the Group's principal financing arrangements.

As disclosed in note 1 to the Financial Statements, the Directors of the Company have highlighted material uncertainties regarding (1) the Group's compliance with its financial covenants and (2) its ability to refinance its existing loan arrangements in the current economic climate and the potential risk of either of these risks resulting in the Group's and/or the Company's loan arrangements becoming repayable on demand in the next 12 months. These material uncertainties may cast significant doubt on the Company's ability to continue to apply the going concern basis of accounting.

DIRECTORS' REPORT (continued)

AUDITOR
Each of the persons who is a director 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 company's auditor is unaware; and

(2) the director has taken all the steps that he/she ought to have taken as a director in order 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.

Approved by the Board and signed on its behalf by:

R A Rose
DIRECTOR

30 June 2020

DIRECTORS' RESPONSIBILITIES STATEMENT

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law, including FRS 101 "Reduced Disclosure Framework"). 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 judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, 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 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 Members of Premier Oil and Gas Services Limited

We have audited the financial statements of Premier Oil and Gas Services Limited for the year ended 31 December 2019 which comprise Profit and Loss Account, the Balance Sheet and the Statement of changes in equity and the related notes 1 to 15, 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 FRS 101 "Reduced Disclosure Framework (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the company's affairs as at 31 December 2019 and of its profit 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 below. 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 in the financial statements, which indicates that there is uncertainty regarding (1) the Group's (Premier Oil plc) compliance with its financial covenants and (2) its ability to refinance its existing loan arrangements in the current economic climate. As stated in note 1, these conditions, 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.

We describe below how our audit responded to the risk relating to going concern:

- The audit engagement partner increased his time directing and supervising the audit procedures on going concern;
- Our audit procedures have focused on management's estimation process including the key assumptions used in the Directors' assessment and cash flow model including oil prices, production profiles and future costs. We performed our own sensitivity calculations on key assumptions to test the adequacy of the available headroom;
- We engaged the EY Valuation, Modelling and Economics team to test the integrity of the model.
- We held regular conversation with management to understand the progress of the stable platform agreement, including covenant waivers and continued access to the RCF;
- We held conversations with the advisors to the creditors informal working group and Premier's advisors to substantiate the status of negotiations;
- We considered whether management has exercised any bias in selecting their assumptions. We identified forecast oil prices as the key assumption in the liquidity assessment. We audited management's oil and gas price assumptions in their base case. Our audit procedures included a comparison of management's price assumptions with those of market participants released since 9 March 2020 when significant price volatility was first observed;

Material uncertainty related to going concern (continued)

- We performed reverse stress testing over prices in response to the recent market volatility, to identify the sensitivity of Premier's liquidity against oil price;
- We compared forecast future cash flows to historical data, ensuring variations are in line with our expectations and understanding of the business and considered the reliability of past forecasts;
- We tested the mathematical accuracy and integrity of the model;
- We tested the covenant calculations to ensure they had been calculated correctly in accordance with the 2017 debt override agreement; and
- We reviewed the disclosures made in the financial statements, as highlighted in the above section of our opinion covering going concern.

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this 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 the other information, we are required to report that fact.

We have nothing to report in this regard.

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 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 or directors' report.

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

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

Independent Auditor's Report to the members of Premier Oil and Gas Services Limited (continued)

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

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

Auditor's responsibilities for the audit of the financial statements
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

Use of our report
This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Gary Donald (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London
30 June 2020

Ernst & Young LLP

PROFIT AND LOSS ACCOUNT
For the year ended 31 December 2019

	Notes	2019 £000	2018 £000
Turnover	3	36,478	35,872
Cost of sales		(34,657)	(35,177)
GROSS PROFIT		1,821	695
Net operating expenses	4	(1,509)	(648)
OPERATING PROFIT		312	47
Interest receivable	6	495	574
Interest payable	6	(279)	(9)
Expected credit loss	9	320	(310)
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		848	302
Tax on profit on ordinary activities	7	(12)	(28)
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION		836	274

The results arise wholly on continuing activities in both the current and preceding years.

There were no other items of comprehensive income other than the profit of £836,000 (2018: profit of £274,000). Accordingly, no statement of total comprehensive income has been presented.

BALANCE SHEET
As at 31 December 2019

	Notes	2019 £000	2018 £000
NON-CURRENT ASSETS			
Tangible fixed assets	8	5,060	1,759
Deferred tax assets	10	200	212
		5,260	1,971
CURRENT ASSETS			
Debtors - amounts falling due within one year	9	17,985	15,375
Cash at bank and in hand		1	1
		17,986	15,376
CREDITORS: amounts falling due within one year	11	(12,605)	(11,339)
NET CURRENT ASSETS		5,381	4,037
TOTAL ASSETS LESS CURRENT LIABILITIES		10,641	6,008
CREDITORS: amounts falling due after one year	12	(3,797)	-
NET ASSETS		6,844	6,008
CAPITAL AND RESERVES			
Called up share capital	13	15,000	15,000
Profit and loss account		(8,156)	(8,992)
		6,844	6,008

The financial statements of Premier Oil and Gas Services Limited, registered number 03468792, were approved by the Board of Directors and authorised for issue on 30 June 2020. They were signed on its behalf by:

R A Rose
DIRECTOR

STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2019

	Share capital £'000	*Profit and loss account £'000*	*Total £'000*
At 1 January 2018	15,000	(9,266)	5,734
Profit for the year		274	274
At 1 January 2019	15,000	(8,992)	6,008
Profit for the year	-	836	836
At 31 December 2019	15,000	(8,156)	6,844

1. ACCOUNTING POLICIES

Premier Oil and Gas Services Limited (the Company) is a private company incorporated in England and Wales under the Companies Act. The address of the registered office is 23 Lower Belgrave Street, London, SW1W 0NR. The principal activity of the company is the provision of support services to companies within the Premier Oil plc group operating in the oil and gas industry.

These financial statements are separate financial statements. The Company is a subsidiary of Premier Oil plc. The group financial statements of Premier Oil plc are available to the public and can be obtained from 23 Lower Belgrave Street, London, SW1W 0NR or on the company website www.premier-oil.com. The registered office address of the parent Company preparing consolidated Financial Statements is 4th Floor, Saltire Court, 20 Castle Terrace, Edinburgh, EH1 2EN.

These financial statements are presented in Great British Pound ("GBP") since that is the currency in which the majority of the Company's transactions are denominated.

Adoption of new and revised standards

In the current year, the following new and revised Standards and Interpretations have been adopted, other than as disclosed below, none of these have a material impact on the company's annual results.

- Amendment to IFRS 10 and IAS 28 – Sale or Contribution of Assets between and Investor and its Associate or Joint Venture
- IFRS 16 Leases
- Amendments to IFRS 4 – Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts
- IFRIC 23 Uncertainty over Income Tax Treatments
- Amendments to IAS 28 – Long-term Interest in Associates and Joint Ventures
- AIP (2015-2017 Cycle): IFRS 3 Business Combinations - Previously held interests in a joint operation
- AIP (2015-2017 Cycle): IFRS 11 Joint Arrangements - Previously held interests in a joint operation
- AIP (2015-2017 Cycle): IAS 12 Income Taxes – Income tax consequences of payments on financial instruments classified as equity
- AIP (2015-2017 Cycle): IAS 23 Borrowing costs eligible for capitalisation
- Amendments to IAS 19 – Plan Amendment, Curtailment or Settlement

IFRS 16

The company adopted IFRS 16 Leases ('IFRS 16') with effect from 1 January 2019. IFRS 16 was issued in January 2016 to replace IAS 17 Leases.

IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases, with limited exceptions, under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. Under IFRS 16, at the commencement date of a lease, a lessee is required to recognise a liability to make lease payments ('lease liability') and an asset representing the right to use the underlying asset during the lease term ('right-of-use asset'). Lease liabilities are measured at the present value of future lease payments over the reasonably certain lease term. Variable lease payments that do not depend on an index or a rate are not included in the lease liability. Such payments are expensed as incurred throughout the lease term.

In applying IFRS 16 for the first time the company has applied the short-term lease practical expedient by not recognising lease liabilities in respect to lease arrangements with a remaining lease term of less than 12 months as at 1 January 2019. The company adopted the modified retrospective approach to adoption on 1 January 2019, measuring right-of-use assets at an amount based on their respective lease liability on adoption, with the cumulative effect of adopting the standard recognised at the date of initial application without restatement of comparative information.

1. ACCOUNTING POLICIES (continued)

Lessees are required to separately recognise the interest expense associated with the unwinding of the lease liability and the depreciation expense on the right-of-use asset. These costs replace amounts previously recognised as operating expenditure in respect of operating leases in accordance with IAS 17.

The following table provides a reconciliation of the company's operating lease commitments as at 31 December 2018 to the total lease liability recognised on adoption of IFRS 16. The company did not recognise any finance leases under IAS 17.

	£'m
Operating lease commitments at 31 December 2018	8.2
Contracts not in scope of IFRS 16[1]	(1.5)
Effect of discounting[2]	(1.0)
Other	(0.3)
Lease liabilities recognised on adoption of IFRS 16	5.4

[1] Contracts that were considered to be leases under IAS 17 which do not meet the definition of a lease under IFRS 16, principally because the supplier is considered to have substantive substitution rights over the associated assets.

[2] The previously disclosed lease commitments were undiscounted, whilst the IFRS 16 obligations have been discounted based on Premier's incremental borrowing rate.

At the date of approval of these financial statements, the following standards and interpretations which have not been applied in these financial statements were in issue but not yet effective:

- Amendments to Reference to the Conceptual Framework in IFRS Standards
- Amendments to IAS 1 and IAS 8 – Definition of Material
- Amendments to IFRS 3 – Definition of Business
- IFRS 17 Insurance Contracts

The directors do not expect that the adoption of the Standards listed above will have a material impact on the financial statements of the company in future periods.

Basis of accounting

The financial statements have been prepared under FRS101 "Reduced Disclosure Framework". As permitted by FRS 101, the company has taken advantage of the disclosure exemptions available under that standard in relation to share-based payments, financial instruments, capital management, presentation of a cash-flow statement, IFRS 16 leases and related party transactions.

Where relevant, equivalent disclosures are provided in the group Financial Statements of Premier Oil plc. The financial statements are prepared under the historical cost convention and in accordance with the Companies Act 2006. Historical cost is generally based on the fair value of the consideration given in exchange for the assets.

The principal accounting policies are summarised below.

1. **ACCOUNTING POLICIES** (continued)

Going concern

The company is part of the Premier Oil plc group (the "Group") and has financial support available to it from its parent and other group companies if required. In addition, the Company is a guarantor company on the Group's principal loan arrangements. The Group monitors its capital position and its liquidity risk regularly throughout the year to ensure that it has sufficient funds to meet forecast cash requirements. Sensitivities are run to reflect latest expectations of expenditures, forecast oil and gas prices and other negative economic scenarios in order to manage the risk of funds shortfalls or covenant breaches and to ensure the Group's ability to continue as a going concern.

After the year end, the spread of COVID-19 and measures introduced by governments across the world to manage the pandemic led to an unprecedented drop in global demand for oil. In addition, a disagreement within OPEC+ on or about 7 March, 2020 triggered an oil price war that caused the largest one-day fall in the oil price since 1991.

The Group has prepared forecast cash flows for the 12 months to 30 June 2021 using an oil price assumption of US$30 for the rest of 2020 and US$40 for 2021 and has deferred capital expenditure of c.US$100 million. Using these assumptions, under the Base case the Group has sufficient liquidity for the rest of 2020; however, a covenant breach is expected to arise for the 12-month period ending 30 June 2020. Given the extreme volatility in current oil prices, the Directors have performed reverse stress testing with the breakeven price for liquidity, assuming the Stable Platform is agreed and the debt maturity in May 2021 is extended, being an average of c.US$20bbl in the 12 months to 30 June 2021.

A breach of one or more of the Group's financial covenants would cause an event of default under the loan arrangements, which could in turn trigger cross-defaults into the other Group companies. Since this company is a guarantor company on the Group's principal loan arrangements, the event of default could result in an acceleration of the repayment of the loan arrangements of the entire group, with the outstanding loan balances becoming repayable on demand within the going concern period and the cancellation of the relevant facilities. If an event of default were to occur at the Group, the Company would not be able to rely on the support of the Group and may not be able to meet its liabilities as they fall due.

In addition to the risk of a covenant breach, the Group's financing facilities are due for maturity in May 2021 which is within the going concern period. In the current global economic environment, there is no guarantee that the Group will be able to extend its current loan arrangements on favourable terms. Therefore, management have already commenced discussions with the Group's major lenders regarding an extension of its existing loan arrangements and waiving of the existing financial covenants until the extension is agreed. The Group has made good progress with a subset of its major creditors representing over 40 per cent of its debt facilities in agreeing principal terms to a "Stable Platform" agreement, which includes the waiving of its financial covenants until 30 September 2020 and to provide continued access to its revolving credit facilities. Management believe it is likely that further covenant waivers would be received if required beyond this date. This agreement has been submitted to the entire lender group for their consent, which is expected to be received in early July 2020. Discussions continue over the proposed amendments to the Group's existing credit facilities and are expected to conclude in Q3 2020, with the expectation being that the debt maturities will be extended or restructured prior to May 2021.

The uncertainties regarding (1) the Group's compliance with its financial covenants and (2) its ability to refinance its existing loan arrangements in the current economic climate and the potential risk of either of these risks resulting in the Group's and/or the Company's loan arrangements becoming repayable on demand in the next 12 months creates material uncertainties which therefore may cast significant doubt on the Company's ability to continue to apply the going concern basis of accounting. However, based on the expectation that the Stable Platform agreement will be completed in early July 2020 management has every expectation a covenant waiver would be received prior to any acceleration of repayment of the Group's loan arrangements during the going concern period. In addition, management expect that an extension or restructuring of the Group's loan arrangements will be agreed prior to May 2021.

1. **ACCOUNTING POLICIES** (continued)

Going concern(continued)

Therefore, the directors of the Company have concluded that it is appropriate to prepare these financial statements on a going concern basis.

Foreign currencies

The functional currency of the company is GBP. All transactions denominated in foreign currencies, being currencies other than the functional currency, are recorded in the functional currency using the exchange rates as of the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies 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 rate, subsequent to the transaction date, is included as an exchange gain.

Tangible fixed assets

Tangible fixed assets are stated at cost, net of depreciation and provision for impairment. Depreciation is calculated on the cost of tangible fixed assets and is charged on a straight-line basis so as to depreciate each asset over its expected working life. The tangible fixed assets of the Company relate to office fixtures and fittings. These assets are depreciated over their estimated useful lives of three years.

Taxation

Current tax, including UK corporation tax and foreign 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. Such assets and liabilities are not recognised if the temporary difference arises from goodwill/excess of fair value over cost 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. The company reassesses its unrecognised deferred tax asset each year taking into account changes in oil and gas prices, the company's proven and probable reserve profile and forecast capital and operating expenditures.

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 based on tax laws and rates that have been enacted or substantially enacted at the balance sheet date

Income and expense

Income, costs and expenses are allocated to the year to which they relate. Losses are accounted for in the year in which they are identified.

1. ACCOUNTING POLICIES (continued)

Turnover

Turnover is measured at the fair value of the consideration received or receivable and represents amounts receivable for services rendered in the normal course of business net of discounts and sales related taxes.

Turnover from services rendered is recognised over the period in which services are provided.

2. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Company's accounting policies, which are described in note 1, the directors may be required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. Such estimates and the associated assumptions would be based on historical experience or other factors that are considered to be relevant. Actual results may differ from these estimates. In the directors' opinion there are no critical judgements and key sources of estimation uncertainty that have a significant effect on the amounts recognised in the financial statements.

3. TURNOVER

Turnover represents the provision of services, net of trade discounts and VAT, contracted in the UK. All turnover originates in the UK.

4. PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

Profit on ordinary activities before taxation is started after charging/(crediting):

	2019 *£000*	*2018* *£000*
Depreciation of tangible fixed assets	740	685
Depreciation of right-of-use assets	727	-
Exchange differences	42	(37)
	1,509	648

The analysis of auditor's remuneration is as follows:

	2019 *£000*	*2018* £000
Fees payable to the company's auditor for the audit of the company's annual accounts*	10	10

* This audit fee was borne by the ultimate parent company in both the current and preceding years without recharge. There have been no non-audit fees charged in 2019 (2018: £nil).

5. STAFF COSTS AND DIRECTORS' REMUNERATION

The company employed no staff during the year (2018: none).

The directors received no remuneration for their services to the company in either the current or preceding years.

6. INTEREST RECEIVABLE AND PAYABLE

	2019 £000	2018 £000
Receivable:		
Interest receivable on loan to the immediate parent company	495	574
	495	574
Payable:		
Lease interest	(268)	-
Bank interest payable and similar charges	(11)	(9)
	(279)	(9)

7. TAX ON PROFIT ON ORDINARY ACTIVITIES

Corporation tax is calculated using at the standard UK corporation rate for the year of 19% (2018: 19%). The charge for the year can be reconciled to the profit per the income statement as follows:

(a) Analysis of tax charge in the year

	2019 £000	2018 £000
UK Corporation tax	-	-
Deferred tax (note 10)	(12)	(28)
Total tax charge for the year	(12)	(28)

(b) Factors affecting the tax charge for the year:

	2019 £000	2018 £000
Profit on ordinary activities before taxation	848	302
Profit on ordinary activities before taxation at 19% (2018: 19%)	161	57
Effects of:		
Taxable income not included in profit before tax	517	449
Group relief claimed	(665)	(482)
Prior year adjustment	-	7
Other tax rate differences	(1)	(3)
Tax charge for the year	12	28

The company had a potential deferred tax asset at 31 December 2019 of £130,398 (2018: £130,000) in respect of tax losses arising on non-trading items. No deferred tax asset is recognised in respect to historic tax losses as insufficient taxable profits are expected to arise in the future against which the deferred tax asset could reverse.

8. TANGIBLE FIXED ASSETS

	Right-of-use asset £000	*Office fixtures and fittings £000*	*Total £000*
Cost:			
At 1 January	-	3,134	3,134
Implementation of IFRS 16	4,361	-	4,361
Additions	-	407	407
At 31 December	4,361	3,541	7,902
Depreciation:			
At 1 January	-	1,375	1,375
Charge for the year	727	740	1,467
At 31 December	727	2,115	2,842
Net book value:			
At 1 January	-	1,759	1,759
At 31 December	3,634	1,426	5,060

There were no new leases entered into during the year.

9. DEBTORS

	2019 £000	*2018 £000*
Amounts falling due within one year:		
Amounts owed by the immediate parent company*	9,817	11,990
Trade debtors	6,744	2,163
VAT and other tax receivable	483	320
Other debtors	65	53
Prepayments	876	849
	17,985	15,375

* Amounts owed by the immediate parent company comprise a loan denominated in pounds sterling. The loan accrues interest at LIBOR plus 6.45 per cent., is repayable on demand and matures in 2021.

The amount owing includes an impairment provision of £36,000 (2018: £356,000) as required under IFRS 9 and was calculated using 12 month expected credit losses (ECL). The movement in the ECL has resulted in a £320,000 credit (2018: £310,000 charge) to the profit and loss account.

10. DEFERRED TAX

	2019 £000	2018 £000
At 1 January	212	240
Charge to profit and loss account in the year	(12)	(28)
At 31 December	200	212

The deferred tax asset arises on fixed asset temporary differences.

In Budget 2016 it was announced that the Corporate Tax main rate would reduce to 17% on 1 April 2020. At Budget 2020, the government announced that the Corporation Tax main rate for the years starting 1 April 2020 and 2021 would remain at 19%. This rate increase will increase the deferred tax asset recognised by £23,657 and the deferred tax asset not recognised by £15,341.

11. CREDITORS: amounts falling due within one year

	2019 £000	2018 £000
Trade creditors	1,604	850
Other creditors	-	8
Lease liability	802	-
Tax and social security payable	1,157	1,142
Accruals	9,042	9,339
	12,605	11,339

12. LEASE LIABILITIES

	2019 £000
At 1 January	5,401
Finance costs	268
Cash outflows for lease arrangements	(1,070)
At 31 December	4,599
Classified as:	
Short-term	802
Non-current	3,797

Expenses related to both short-term and low value lease arrangements are considered to be immaterial for reporting purposes. During the period there were no variable lease costs. Lease liabilities have been classified as either short-term or non-current in the balance sheet according to whether they are expected to be settled within 12 months of the balance sheet date.

The lease liability represents the lease arrangement for the office premises. The lease liability, and associated right-of-use-asset have been calculated by reference to in-substance fixed lease payments in the underlying agreements incurred throughout the non-cancellable period of the lease along with periods covered by options to extend the lease where the company is reasonably certain that such options will be exercised.

12. LEASE LIABILITIES (continued)

Under the modified retrospective transition method, lease payments were discounted at 1 January 2019 using an incremental borrowing rate representing the rate of interest that the Premier group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The incremental borrowing rate applied to each lease was determined by taking into account the risk-free rate, adjusted for factors such as the credit rating linked to the life of the underlying lease agreement. The weighted average incremental borrowing rate applied by the company upon transition was 7.2 per cent.

13. CALLED UP SHARE CAPITAL

	2019	*2018*
	£000	*£000*
Authorised, called up and fully-paid:		
15,000,000 Ordinary Shares of £1 each	15,000	15,000

14. ULTIMATE CONTROLLING PARTY

The Company's immediate parent company is Premier Oil Holdings Limited. The Company's ultimate parent company and controlling party is Premier Oil plc, a company incorporated in the United Kingdom and registered in Scotland. Premier Oil plc is the parent undertaking of the largest and the smallest group of which the Company is a member and for which group financial statements are prepared. Copies of the group financial statements are available from Premier Oil plc, 23 Lower Belgrave Street, London SW1W 0NR.

15. SUBSEQUENT EVENTS

Corporate Actions

In January 2020, the Company's ultimate parent company, Premier Oil plc (the "Group") publicly announced the agreement it had reached to undertake the following corporate actions (together the 'Corporate Actions'):

- an amend and extend ('A&E') of all the Group's refinancing facilities, including extension of maturities from May 2021 to November 2023;
- the proposed acquisition of a 25 per cent working interest in Tolmount from Dana and interests in Andrew and Shearwater (together the 'Acquisitions' or 'Acquired Assets')
- entering into a US$300 million bridge facility to partly finance the Acquisitions (the 'Bridge Facility'). Based on current forecasts it is not expected that the Bridge Facility will be utilised; and
- raising equity from shareholders via a combination of a placing and a rights issue (the 'Equity Raise'), which is fully underwritten.

Lender consents were obtained from the required proportion of lenders for the above Corporate Actions, prior to their announcement and the Scheme process was launched, with more than 75 per cent of the Group's lenders approving the Scheme in February 2020.

In April 2020, the Court of Session in Edinburgh approved the Scheme to implement the proposed Acquisitions, and the A&E. However, a single dissenting creditor (the "Single Creditor") announced its intention to appeal the Court's judgment. This, combined with significant changes in the macro-economic environment, resulted in the Group entering into further negotiations with BP regarding the Andrew Area and Shearwater acquisitions and also conversations with its principal lenders around the proposed transactions and the 2021 maturity of its debt facilities.

15. **SUBSEQUENT EVENTS** (continued)
In June 2020, the Group announced it had

- reached agreement with BP over amended terms for the acquisition of the Andrew Area and Shearwater assets (together the "BP Acquisitions"), with reduced upfront cash consideration now payable at completion;
- reached agreement with a subset of its principal creditors representing over 40 per cent of its debt facilities to waive the Company's financial covenants through to 30 September 2020 and to provide continued access to its revolving credit facilities (the "Stable Platform"). The terms of the Stable Platform are agreed and are in the process of receiving formal support from the wider lender group; and,
- agreed a settlement with the Single Creditor, under which the Single Creditor will withdraw its appeal of the Court's judgment approving the Schemes and will support the BP Acquisitions and the Stable Platform Agreement through the lender consent process. As part of this agreement, the Group has issued 82.2 million new shares to the Single Creditor at a price of 26.69 pence per share. The agreement also provides for a comprehensive settlement of all claims relating to the schemes and related matters (including costs).

Macro-economic environment
The company is exposed to macro-economic risks, including pandemic disease that could have a material adverse effect on our operations. The company continues to monitor the COVID-19 outbreak which is causing economic disruption and may impact our performance in 2020. Premier remains extremely vigilant and focused on the welfare, health and safety of all of its staff and contractors. To date, production operations have not been materially impacted by COVID-19. In addition, a disagreement within OPEC+ on or about 7 March, 2020 has triggered an oil price war that caused the largest one-day fall in the oil price since 1991.