

**ALPHA PETROLEUM (UK) HOLDINGS LIMITED**

**AUDITED FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 31 DECEMBER 2015**

**REGISTRATION NUMBER: 8774092**

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COMPANIES HOUSE

<b>Directors</b>	Daniel Reis Arun Subbiah
<b>Auditor</b>	Deloitte LLP 2 New Street Square London EC4A 3BZ United Kingdom
<b>Administrator and Secretary</b>	Elian Corporate Services (UK) Limited 6th Floor 11 Old Jewry London EC2R 8DU United Kingdom
<b>Advisor</b>	Petroleum Equity LLP Berkeley Square House Berkeley Square London W1J 6BD United Kingdom
<b>Registered Office</b>	6th Floor 11 Old Jewry London EC2R 8DU United Kingdom
<b>Legal Advisors</b>	Debevoise & Plimpton LLP 65 Gresham Street London EC2V 7NQ United Kingdom

**ALPHA PETROLEUM (UK) HOLDINGS LIMITED**  
**REGISTRATION NUMBER: 8774092**  
**REPORT OF THE DIRECTORS**  
**FOR THE YEAR ENDED 31 DECEMBER 2015**

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2.

The directors present their report and the audited financial statements of Alpha Petroleum (UK) Holdings Limited (the "Company") for the year ended 31 December 2015.

This report of the directors has been prepared in accordance with the provisions applicable to companies entitled to the small companies exemption.

**Incorporation**

The Company was incorporated under the Companies Act 2006 on 13 November 2013.

**Going concern**

The Company meets its funding requirements through the loans provided by its immediate parent, Alpha Petroleum HoldCo II Limited ("HoldCo II"). HoldCo II meets its funding requirements through the loans provided by Alpha Petroleum HoldCo I Limited ("HoldCo I"), the ultimate parent and controlling party.

As described in note 2b, HoldCo I has provided the Company with a letter of support. HoldCo I expects to provide such support from cash on hand together with additional funding available to be called from its shareholders.

The directors, after carrying out necessary enquiries, believe that the Company has adequate sources of funding to meet its future investments and the payment of its expenses and is well placed to manage its business risk successfully.

As a consequence of the above, the directors have reasonable expectation that the Company has adequate resources and procedures in place to manage its business risks for the foreseeable future. Accordingly, the Company has adopted the going concern basis in the preparation of the financial statements.

**Subsequent events**

The directors have evaluated the subsequent events from the date of the financial statements through to the date the financial statements were available to be issued. There were no subsequent events identified which required accrual or disclosure in these financial statements.

**Future developments**

The Company has no significant future developments to report.

**Directors**

The directors in office during the period and when these financial statements were approved are shown on page 1. The directors did not receive any remuneration from the Company for the year ended 31 December 2015 (31 December 2014 - USD nil).

**Secretary**

The Secretary for the year and subsequently is as stated on page 1.

**Auditor**

Deloitte LLP have indicated their willingness to continue in office. In accordance with s.485 of the Companies Act 2006, a resolution is to be proposed for the re-appointment of Deloitte LLP as auditor of the Company.

**ALPHA PETROLEUM (UK) HOLDINGS LIMITED**  
**REGISTRATION NUMBER: 8774092**  
**REPORT OF THE DIRECTORS - CONTINUED**  
**FOR THE YEAR ENDED 31 DECEMBER 2015**

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3.

**Statement of directors' responsibilities**

The directors are responsible for preparing the financial statements in accordance with applicable law and International Financial Reporting Standards.

Company law requires the directors to prepare financial statements for each financial period which 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 estimates that are reasonable and prudent;
- state whether applicable International Financial Reporting 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 proper accounting records that 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.

The directors who held office at the date of approval of this report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditor is unaware, and each director has taken all the steps that they ought to have taken as a director to make themselves 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 Section 418 of the Companies Act 2006.

**By order of the Board**

**Director** Arun Subbiah  
**Date:** 30 March 2016



**Matters on which we are required to report by exception**

We have nothing to report in respect of the following matters where 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; or
- the directors were not entitled to take advantage of the small companies exemption in preparing the Report of the Directors or from the requirement to prepare a Strategic Report.



Senior Statutory Auditor  
Bevan Whitehead, ACA  
for and on behalf of Deloitte LLP  
Chartered Accountants and Statutory Auditor  
London  
30 March 2016

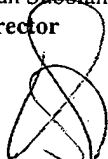
**ALPHA PETROLEUM (UK) HOLDINGS LIMITED**  
**REGISTRATION NUMBER: 8774092**  
**STATEMENT OF FINANCIAL POSITION**  
**AS AT 31 DECEMBER 2015**

6.

	Notes	31 December 2015 USD	31 December 2014 USD
<b>Assets</b>			
<b>Non current assets</b>			
Financial assets at fair value through profit or loss	3, 4	84,227,768	84,765,912
<b>Total non current assets</b>		<b>84,227,768</b>	<b>84,765,912</b>
<b>Current assets</b>			
Cash and cash equivalents	6	100,001	1
<b>Total current assets</b>		<b>100,001</b>	<b>1</b>
<b>Total assets</b>		<b>84,327,769</b>	<b>84,765,913</b>
<b>Equity and liabilities</b>			
<b>Current liabilities</b>			
Accruals and other payables		84,382	16,827
Loans payable	5	45,675,168	42,575,168
<b>Total current liabilities</b>		<b>45,759,550</b>	<b>42,591,995</b>
<b>Total liabilities</b>		<b>45,759,550</b>	<b>42,591,995</b>
<b>Equity</b>			
Share capital	7	1	1
Retained earnings		38,568,218	42,173,917
<b>Total equity</b>		<b>38,568,219</b>	<b>42,173,918</b>
<b>Total equity and liabilities</b>		<b>84,327,769</b>	<b>84,765,913</b>

The financial statements of Alpha Petroleum (UK) Holdings Limited were approved and authorised for issue by the Board of Directors on 30 March 2016 and were signed on its behalf by:

Arun Subbiah  
Director



The notes on pages 10 to 20 form an integral part of these audited financial statements

**ALPHA PETROLEUM (UK) HOLDINGS LIMITED**  
**REGISTRATION NUMBER: 8774092**  
**STATEMENT OF COMPREHENSIVE INCOME**  
**FOR THE YEAR ENDED 31 DECEMBER 2015**

7.

	Notes	For the year 1 January 2015 to 31 December 2015		For the period 13 November 2013 to 31 December 2014	
		USD	USD	USD	USD
<b>Expenses</b>					
Administration fees		38,528		4,932	
Audit fees		28,714		11,719	
Sundry expenses		1,507		176	
Net foreign exchange gain		(1,194)		-	
<b>Total operating expenses</b>			(67,555)		(16,827)
Net (loss)/gain on financial assets at fair value through profit or loss	3		(3,538,144)		42,190,744
<b>Net (loss)/profit before taxation</b>			(3,605,699)		42,173,917
Taxation	8		-		-
<b>Comprehensive (loss)/income for the year/period</b>			<b>(3,605,699)</b>		<b>42,173,917</b>

There were no components of 'other comprehensive income' which are required to be separately disclosed during the current period.

All of the amounts above are in respect of continuing operations.

The notes on pages 10 to 20 form an integral part of these audited financial statements

ALPHA PETROLEUM (UK) HOLDINGS LIMITED  
 REGISTRATION NUMBER: 8774092  
 STATEMENT OF CHANGES IN EQUITY  
 FOR THE YEAR ENDED 31 DECEMBER 2015

8.

	Share Capital- USD	Retained Earnings USD	Total USD
Balance as at 13 November 2013	-	-	-
Issuance of ordinary shares	1	-	1
Comprehensive income for the period	-	42,173,917	42,173,917
Balance as at 31 December 2014	1	42,173,917	42,173,918
Comprehensive loss for the year	-	(3,605,699)	(3,605,699)
Balance as at 31 December 2015	1	38,568,218	38,568,219

The notes on pages 10 to 20 form an integral part of these audited financial statements



**ALPHA PETROLEUM (UK) HOLDINGS LIMITED**  
**REGISTRATION NUMBER: 8774092**  
**STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED 31 DECEMBER 2015**

9.

	Note	For the year 1 January 2015 to 31 December 2015 USD	For the period 13 November 2013 to 31 December 2014 USD
<b>Cash flows from operating activities</b>			
Net (loss)/profit before taxation		(3,605,699)	42,173,917
<i>Adjustments for:</i>			
Net loss/(gain) on financial assets at fair value through profit or loss	3	3,538,144	(42,190,744)
Increase in payables		67,555	16,827
<b>Net cash used in operating activities</b>		-	-
<b>Cash flows from investing activities</b>			
Purchase of APR's ordinary shares	3	-	(1,000)
Contributions to APR pursuant to the purchase and sale agreement	3	-	(37,574,168)
Interest-free loans to APR	3	(3,000,000)	(5,000,000)
<b>Net cash used in investing activities</b>		(3,000,000)	(42,575,168)
<b>Cash flows from financing activities</b>			
Issue of ordinary shares	7	-	1
Loans from HoldCo II		3,100,000	42,575,168
<b>Net cash generated from financing activities</b>		3,100,000	42,575,169
<b>Net increase in cash and cash equivalents</b>		100,000	1
<b>Cash and cash equivalents at the beginning of the year/period</b>		1	-
<b>Cash and cash equivalents at the end of the year/period</b>	6	<b>100,001</b>	<b>1</b>

The notes on pages 10 to 20 form an integral part of these audited financial statements

**1. Summary of significant accounting policies**

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

**1.1 Basis of preparation**

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and have been prepared under the historical cost convention as modified for the revaluation of certain financial assets and liabilities at fair value. The financial statements are prepared in US Dollars ("USD"), the primary currency in which the Company operates ("Functional currency").

**Consolidation**

The Company owns 100% of the issued shares of Alpha Petroleum Resources Limited ("APR"). On adoption of IFRS 10 Consolidated Financial Statements, the Company has determined that it meets the definition of an investment entity as disclosed in Note 1.8 and therefore APR was not consolidated. The Company's investment in APR is accounted for at fair value through profit or loss.

**Going concern**

The Company meets its funding requirements through the loans provided by its immediate parent, Alpha Petroleum HoldCo II Limited ("HoldCo II"). HoldCo II meets its funding requirements through the loans provided by Alpha Petroleum HoldCo I Limited ("HoldCo I"), the ultimate parent and controlling party.

As described in note 2b, HoldCo I has provided the Company with a letter of support. HoldCo I expects to provide such support from cash on hand together with additional funding available to be called from its shareholders.

The directors, after carrying out necessary enquiries, believe that the Company has adequate sources of funding to meet its future investments and the payment of its expenses and is well placed to manage its business risk successfully.

As a consequence of the above, the directors have reasonable expectation that the Company has adequate resources and procedures in place to manage its business risks for the foreseeable future. Accordingly, the Company has adopted the going concern basis in the preparation of the financial statements.

**Critical accounting judgements**

The preparation of financial statements in conformity with IFRS requires the use of accounting estimates and exercise of judgement by the directors while applying the Company's accounting policies. These estimates are based on the directors' best knowledge of the events, which existed at the financial position date; however, the actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis.

There are significant areas of uncertainty and critical judgement involved in the calculation of fair values. Further details in relation to key assumptions made in determining the fair values of the Company's investment in APR are disclosed in Note 4.

**Adoption of new and revised standards**

There were no new standards becoming effective during the year that had a significant impact on the financial statements of the Company.

**1. Summary of significant accounting policies - continued**

*New Standards, Amendments and Interpretations not yet effective and not early adopted*

Standards issued but not yet effective up to the date of issuance of the Company's financial statements are listed below. This listing of standards and interpretations issued are those that the Company reasonably expects to have an impact on disclosures, financial position or performance when applied at a future date. The Company intends to adopt these standards when they become effective.

*IFRS 9 Financial Instruments - effective for annual periods beginning 1 January 2018*

IFRS 9 Financial Instruments ("IFRS 9") addresses the classification, measurement and recognition of financial assets and financial liabilities. IFRS 9 was issued November 2009 and October 2010. It replaces the parts of IAS 39 that relate to the classification and measurement of financial instruments. IFRS 9 requires that financial assets are classified into two measurement categories: those measured as at fair value and those measured at amortised cost. This determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the IAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch. The Company is yet to assess IFRS 9's full impact.

There are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Company.

**1.2 Financial assets**

**Classification**

The Company classifies its financial assets in the following categories: at fair value through profit or loss and loans receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

*(a) Financial assets at fair value through profit or loss*

Financial assets at fair value through profit or loss comprise the Company's investment in APR. The Company's policy is for the Board of Directors to evaluate the information about this investment on a fair value basis together with other related information. Assets in this category are classified as current assets if there is a possibility they can be settled within 12 months; otherwise, they are classified as non-current.

*(b) Loans and receivables*

Loans and receivable are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period, which are classified as non-current assets. The Company's loans and receivables comprise cash and cash equivalents and are included in the statement of financial position.

**1. Summary of significant accounting policies - continued**

**1.2 Financial assets - continued**

**Recognition and measurement**

Financial assets carried at fair value through profit or loss, are initially recognised at fair value, and transaction costs are expensed in the statement of comprehensive income. Subsequent to initial recognition, financial assets in this category are re-measured at fair value.

Gains or losses arising from changes in the fair value of financial assets at fair value through profit or loss are presented in the statement of comprehensive income in the period in which they arise.

Financial assets are derecognised when the right to receive cash flows from the asset have expired or have been transferred and the Company has transferred substantially all risks and rewards or ownership.

Loans and receivables are initially recognised at fair value plus transaction costs, if any, which are directly attributable to their acquisition or origination. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

**1.3 Payables**

Payables are financial liabilities with fixed or determinable values that are not quoted in an active market. They arise when the Company either receives services from another entity or purchases any security the settlement of which remains outstanding as at the financial position date. Payables are recognised initially at fair value less transaction costs, if any. These are subsequently measured at amortised cost using the effective interest method. Given the nature of payables, however, and the short length of time involved between their origination and settlement, their amortised cost is the same as their fair value at the date of origination.

**1.4 Expenses**

All items of expenses are recognised on an accruals basis.

**1.5 Foreign currency translation**

Foreign currency transactions are translated to USD using the exchange rates prevailing at the dates of the transactions. Foreign currency monetary assets and liabilities are translated to USD using the exchange rate prevailing at the statement of financial position date.

Foreign exchange gains and losses arising from translation are included in the statement of comprehensive income.

**1.6 Taxation**

Income tax on the profit or loss for the period comprises current tax. Income tax is recognised in the statement of comprehensive income except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable or recoverable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the date of the statement of financial position.

**1. Summary of significant accounting policies - continued**

**1.7 Cash and cash equivalents**

Cash and cash equivalents includes cash in hand, deposits held at call with banks, bank overdrafts and other short term liquid investments with original maturities of three months or less.

**1.8 Investment entity**

IFRS 10 Consolidated Financial Statements introduced an exception to the principle that all subsidiaries should be consolidated. The amendments define an investment entity and require a parent entity that is an investment entity to measure its subsidiaries at fair value through profit or loss, in accordance with IAS 39 Financial Instruments: Recognition and Measurement and IFRS 13 Fair Value Measurement instead of consolidating those subsidiaries. The Company meets the definition of an investment entity on the basis of the following criteria;

- the Company obtains funds from multiple investors through Alpha Petroleum HoldCo I Limited ("HoldCo I") for the purpose of providing those investors with investment management services;
- the Company commits to its investors, through HoldCo I, that its business purpose is to invest funds solely for returns from capital appreciation, investment income, or both; and
- the Company measures and evaluates the performance of substantially all of its investments on a fair value basis.

To determine if the Company meets the definition of an investment entity, further consideration is given to the following characteristics of an investment entity that are demonstrated by the Company;

- it has more than one investor through HoldCo I;
- it has investors, through HoldCo I, that are not related parties
- it has ownership interests in the form of equity or a similar interest; and
- it holds investments for a limited period only i.e. it has an exit strategy for its investments.

**2. Use of financial instruments**

The Company's activities expose its shareholders to a variety of financial risks: market risk (including currency risk, interest rate risk and other price risk), liquidity risk and credit risk. The risk management policies employed by the Company to manage these risks are discussed below.

The carrying values of the Company's financial assets and liabilities below are not considered to be materially different from their fair values.

**(a) Market risk**

**(i) Price risk**

The Company's investment in APR is susceptible to market price risk arising from uncertainties about future cash flows from APR's assets, which affect the value of the Company's investment in APR. The basis of the valuation and the Company's exposure to price risk are set out in Note 4.

2. Use of financial instruments - continued

(a) Market risk - continued

(ii) Currency risk

The Company has some monetary financial liabilities denominated in currencies other than USD, the functional currency of the Company. Consequently the Company is exposed to currency risks since the value of the liabilities denominated in other currencies will fluctuate due to changes in exchange rates.

As at 31 December 2015

	GBP denominated	USD denominated	Total USD
<b>Assets</b>			
Cash and cash equivalents	-	100,001	100,001
Total assets	-	100,001	100,001
<b>Liabilities</b>			
Accruals and other payables	58,818	25,564	84,382
Loans payable	-	45,675,168	45,675,168
Total liabilities	58,818	45,700,732	45,759,550
<b>Net assets</b>	(58,818)	(45,600,731)	(45,659,549)

As at 31 December 2014

	GBP denominated	USD denominated	Total USD
<b>Assets</b>			
Cash and cash equivalents	-	1	1
Total assets	-	1	1
<b>Liabilities</b>			
Accruals and other payables	12,071	4,756	16,827
Loans payable	-	42,575,168	42,575,168
Total liabilities	12,071	42,579,924	42,591,995
<b>Net assets</b>	(12,071)	(42,579,923)	(42,591,994)

The GBP exchange rate at 31 December 2015 was GBP 1 to 1.47 (31 December 2014: GBP 1 to USD 1.56).

As at 31 December 2015, a 10% increase/decrease in GBP against USD will result in an increase/decrease in the net assets of the Company by USD 5,882 (31 December 2014: increase/decrease of USD 1,207).

The sensitivity analysis includes only outstanding foreign currency denominated financial assets and liabilities and adjusts their translation at the year end for a 10% change in foreign currency rate thus indicating the potential movement in net assets of the Company. 10% is management's assessment of a reasonably possible change in foreign exchange rates.

ALPHA PETROLEUM (UK) HOLDINGS LIMITED  
REGISTRATION NUMBER: 8774092  
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED  
FOR THE YEAR ENDED 31 DECEMBER 2015

15.

2. Use of financial instruments - continued

(a) Market risk - continued

(iii) Interest rate risk

The Company is exposed to risks associated with the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. The table below summarises the Company's exposure to interest rate risks for interest bearing monetary financial assets and liabilities at the date of origination.

As at 31 December 2015

	Interest bearing Up to 1 year USD	1 - 5 years USD	Non interest bearing USD	Total USD
<b>Assets</b>				
Cash and cash equivalents	100,001	-	-	100,001
Total assets	100,001	-	-	100,001
<b>Liabilities</b>				
Accruals and other payables	-	-	84,382	84,382
Loans payable	-	-	45,675,168	45,675,168
Total liabilities	-	-	45,759,550	45,759,550
<b>Total interest sensitivity</b>	100,001			

As at 31 December 2014

	Interest bearing Up to 1 year USD	1 - 5 years USD	Non interest bearing USD	Total USD
<b>Assets</b>				
Cash and cash equivalents	1	-	-	1
Total assets	1	-	-	1
<b>Liabilities</b>				
Accruals and other payables	-	-	16,827	16,827
Loans payable	-	-	42,575,168	42,575,168
Total liabilities	-	-	42,591,995	42,591,995
<b>Total interest sensitivity</b>	1			

The cash and cash equivalents are held with floating rate of interest. The directors believe that there is no significant net interest rate risk to the Company.

**2. Use of financial instruments - continued**

**(b) Liquidity risk**

Liquidity risk is the risk that the Company may not be able to generate sufficient cash resources to settle its obligations in full as they fall due or can only do so on terms that are materially disadvantageous.

HoldCo I has provided a letter of support to the Company confirming that it will ensure that additional monies are invested into the Company in order to ensure that the Company can meet its ongoing financial obligations for the foreseeable future, being at least the next twelve months. These shall be contributed at such times as the Company may require for working capital purposes or for meeting any obligation of the Company including loan contributions to APR, accordingly, the directors consider that the Company has no liquidity risk for the foreseeable future.

Liquidity risk could result from an inability to sell a financial asset quickly at its fair value. The investment held by the Company is unlikely to be readily realisable. This is mitigated by only incurring liabilities and expenditure obligations on terms which are compatible with the illiquidity of the Company's investment and by closely monitoring market developments relevant to APR and evaluating all potential exit opportunities.

**(c) Credit risk**

The Company is exposed to credit risk, which is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

The Company is primarily exposed to the credit risk of APR. APR is subject to a Company Voluntary Arrangement ("CVA") in respect to its creditors pursuant to the agreement between APR and the Company on 23 December 2013. In order for the CVA to be implemented, the Company is required to further provide loan contributions to APR as defined in the agreement.

This risk is mitigated by closely monitoring the performance of APR.

The Company's maximum exposure to credit risk is the total carrying amount of the financial assets as set out below:

	31 December 2015	31 December 2014
	USD	USD
Cash and cash equivalents	<u>100,001</u>	<u>1</u>

**3. Fair value estimation**

The table on the following page analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for assets or liabilities, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for asset or liabilities that are not based on observable market data (that is, unobservable inputs) (level 3).



3. Fair value estimation - continued

The following table presents the Company's financial instruments that are measured at fair value:

As at 31 December 2015

	Level 1 USD	Level 2 USD	Level 3 USD	Total USD
<b>Financial assets at fair value through profit or loss</b>				
Investment in APR	-	-	84,227,768	84,227,768

As at 31 December 2014

	Level 1 USD	Level 2 USD	Level 3 USD	Total USD
<b>Financial assets at fair value through profit or loss</b>				
Investment in APR	-	-	84,765,912	84,765,912

Financial instruments classified within level 3 have significant unobservable inputs. The key assumptions made in determining the fair values of the Company's investment in APR are disclosed in Note 4.

At every year-end, the Advisor presents to the directors its assessment if there have been transfers between levels. A transfer is deemed to have occurred if any of the significant inputs in the fair value model have changed from unobservable (Level 3) to either quoted (Level 1) or observable (Level 2). Transfers between levels are effective from the end of the financial year.

	31 December 2015 USD	31 December 2014 USD
<b>Financial assets at fair value through profit or loss</b>		
<i>Investment in APR</i>		
Opening balance	84,765,912	-
Investment in ordinary shares	-	1,000
Contributions to APR pursuant to the purchase and sale agreement	-	37,574,168
Interest-free loans to APR	3,000,000	5,000,000
Net (loss)/gain on financial assets at fair value through profit or loss	(3,538,144)	42,190,744
<b>Ending balance</b>	<u>84,227,768</u>	<u>84,765,912</u>

4. Financial assets at fair value through profit or loss

	31 December 2015 USD	31 December 2014 USD
<b>Investment in APR</b>		
Cost	<u>45,575,168</u>	<u>42,575,168</u>
Fair Value	<u>84,227,768</u>	<u>84,765,912</u>

On 23 December 2013, the Company entered into an agreement with ATP Oil & Gas Corporation to purchase the entire issued capital of APR (formerly ATP Oil & Gas (UK) Limited). Pursuant to the agreement, the Company paid USD 1,000 for the shares of APR. The Company is also required to provide loan contributions to APR in line with the agreement. As at 31 December 2015, USD 37,574,168 of loan contributions have been made (31 December 2014 - USD 37,574,168).

As at 31 December 2015, the Company has also acquired USD 8,000,000 of APR's interest-free funding securities (31 December 2014 - USD 5,000,000) which are included within the carrying amount of the investment in APR.

The valuation of the investments is determined as follows:

	31 December 2015 USD	31 December 2014 USD
Net asset value of APR, adjusted	293,514,744	258,942,816
Contingent payments	(52,717,627)	(51,630,157)
Liquidity discount	<u>(156,569,349)</u>	<u>(122,546,747)</u>
Valuation of investment	<u>84,227,768</u>	<u>84,765,912</u>

The net asset value of APR is based on the discounted cash flows from its development and producing assets. The resulting net asset value of APR amounting to USD 285,514,744 (2014: USD 253,942,816) was adjusted to add back the intercompany loans provided by the Company to APR in the form of interest-free funding securities amounting to USD 8,000,000 (31 December 2014: USD 5,000,000). The discounted cash flows of APR involve a number of judgements and estimates including future oil and gas prices, production levels, future capital and operating expenditures and discount rate. These assumptions are inherently uncertain.

The USD 52,717,627 (2014: USD 51,630,157) contingent payments relate to the discounted value of the expected payments required from the Company, pursuant to the purchase and sale agreement between the Company and APR. The payments will be triggered by certain milestones being achieved as defined in the agreement. The payments required are fixed contractual sums of up to USD 98,000,000, however the discounted value of these reflects assumptions about whether the milestones will be achieved and the discount rate to be applied which are inherently uncertain.

A discount of 66% (2014: 60.5%) was then applied based on the observed average discount of equities to net asset values of companies similar to APR. This discount reflects a period of turmoil in global oil markets, and therefore there is significant uncertainty as to whether such a discount will endure.

The movement in the fair value of the Company's investment in APR is disclosed in Note 3.

**ALPHA PETROLEUM (UK) HOLDINGS LIMITED**  
**REGISTRATION NUMBER: 8774092**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**FOR THE YEAR ENDED 31 DECEMBER 2015**

19.

**5. Loans payable**

	31 December 2015 USD	31 December 2014 USD
Loans payable to HoldCo II	<u>45,675,168</u>	<u>42,575,168</u>

As at 31 December 2015, the Company has issued a total of USD 45,675,168 unsecured Interest-free Funding Securities ("IFFS") to HoldCo II (31 December 2014 - USD 42,575,168), its parent. This is pursuant to the Interest Free Funding Securities Deed Poll by the Company on 19 December 2013. Per the Deed Poll, the aggregate principal of the IFFS the Company can issue is limited to USD 88,500,000.

The Company shall be entitled at all times to prepay or repay the outstanding IFFS. The Company can also be called upon to repay the amount due. Repayment of the IFFS is subject to certain limitations to protect the Company's liquidity. The IFFS are otherwise mandatorily convertible into the Company's shares at the fifty-first anniversary of its effective date.

**6. Cash and cash equivalents**

For the purposes of cash flows, the year end/period end cash and cash equivalents comprise the following:

	31 December 2015 USD	31 December 2014 USD
Cash at bank	<u>100,001</u>	<u>1</u>

**7. Share capital**

The following are the share issued and fully paid as at the year end/period end.

	31 December 2015 USD	31 December 2014 USD
Ordinary USD 1 par value shares (1 share)	<u>1</u>	<u>1</u>

**8. Taxation**

	31 December 2015 USD	31 December 2014 USD
<b>Current tax</b>		
UK Corporation Tax	<u>-</u>	<u>-</u>
<b>Reconciliation of effective tax to Corporation Tax</b>		
Net (loss)/profit before taxation	<u>(3,605,699)</u>	<u>42,173,917</u>
Income tax benefit/(expense) at UK tax rate of 20% (2014: 21.5%)	721,140	(9,067,392)
Income and expenses not subject to tax	(707,629)	9,071,010
Unutilised tax credit	<u>(13,511)</u>	<u>(3,618)</u>
Total taxation	<u>-</u>	<u>-</u>

**9. Related party transactions and ultimate controlling party**

As disclosed in Note 2, the Company owns 100% of APR's ordinary shares. The Company's investments and loans provided to APR are disclosed in Note 4.

The Company's ordinary shares are 100% owned by HoldCo II. The Company's loans payable to HoldCo II are disclosed in Note 5.

As at 31 December 2015, an amount of USD 25,564 is due to HoldCo I, the parent company of HoldCo II and the ultimate controlling party of the Company (31 December 2014 - USD 4,756).