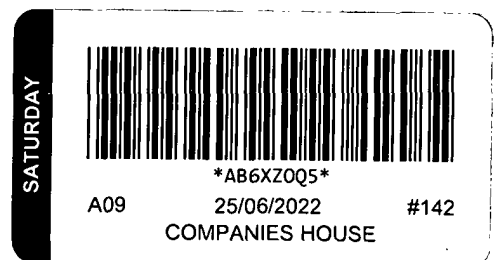


COMPANY REGISTRATION NUMBER: 08808553

**HORSE HILL DEVELOPMENTS LTD
ANNUAL REPORT AND FINANCIAL STATEMENTS**

Year ended 30 September 2021



HORSE HILL DEVELOPMENTS LTD
ANNUAL REPORT AND FINANCIAL STATEMENTS
Year ended 30 September 2021

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**HORSE HILL DEVELOPMENTS LTD
ANNUAL REPORT AND FINANCIAL STATEMENTS
COMPANY INFORMATION**

Directors

Stephen Paul Sanderson
George Frangeskides
Kiran Morzaria

Registered office

The Broadgate Tower 8th Floor
20 Primrose Street
London
EC2A 2EW

Registered number

08808553

HORSE HILL DEVELOPMENTS LTD STRATEGIC REPORT

The directors present the strategic report for the year ended 30 September 2021.

Review of the business

The principal activity of Horse Hill Developments Ltd ("the company") is the investment in and operation of onshore oil and gas exploration, development and production opportunities in the United Kingdom. The Company operates Horse Hill oil field and the surrounding licence.

The company is a member of the UK Oil and Gas plc Group ("the Group"). The Group specialises in investing in new geological ideas, concepts and methodologies to find and produce oil from previously unexplored rock formations within established oil-producing basins and is listed on London's Alternative Investment Market ("AIM").

Business review

The loss for the year after taxation is £1,768,955 (2020: £17,887,978). The directors do not recommend payment of a dividend (2020: £0).

At the beginning of the reporting period, further well intervention operations on Horse Hill-1 ("HH-1") were safely completed, optimising oil flow by isolating the Kimmeridge perforations, by reperforating the full Portland oil producing section, by insertion of a new simplified production tubing string and by setting the downhole pump at a deeper level than the existing perforations to increase pumping efficiency.

The intervention was immediately followed by an ongoing series of multi-week production optimisation trials to achieve an optimum balance between oil revenues and water handling and other operational costs. Trials include well-cycling (i.e., shutting in the well for a set period each day to reduce water inflow) and pump optimisations. The trials continued for several months.

These improvements set HH-1 up for long term continuous and optimised oil production from the Portland. Conversion of the HH-2z well to water injection, subject to regulatory approval, plus further infill development of both Portland (HH-3 well) and Kimmeridge (HH-4 well) offer significant upside for the Horse Hill field.

Pressure build-up data was also carried out confirming the HH-1 connected oil in place volumes of 7-11 mmbbl.

The removal of ancillary third-party rental equipment and the purchase of the surface production equipment from PW Well Test Ltd was completed.

Due to the coronavirus pandemic the OGA granted two-year extensions to the remaining deadlines for the PEDL137 and PEDL246 Retention Area work programmes.

Planned shutdowns were successfully completed to install new surface production facilities in line with requirements under the Control of Major Accident Hazards (COMAH) Regulations. In addition, a new more efficient gas flare was installed and commissioned successfully at Horse Hill.

As of the end of December over 162,000 bbl of Brent quality crude had been produced and exported from the Kimmeridge and Portland pools.

Significant efforts have again been made in managing and reducing operational costs. Recent Brent crude prices of over \$90/bbl have helped operational cash flow from the field.

During the period an energy efficiency study was completed for Horse Hill to reduce diesel consumption and carbon emissions recommending the installation of 250kW solar PV and 67kWh Li-ion battery storage. Further detailed scoping is required during the next period to confirm capital expenditure and timings for the project within the overall field development.

In December 2021, the Company announced the signing of a Heads of Terms with geothermal specialists Ceraphi to enter into a joint venture agreement to develop part of the Horse Hill site into a geothermal energy hub (GeoHub).

GeoHub, currently at a conceptual stage, is targeted to generate and supply more than 200,000 MWh per year of continuous baseload, primarily as heat energy. The project's first phase would aim to supply significant industrial end-users in the locality with 100% green heating and cooling plus ancillary green electricity and/or hydrogen.

In February 2022, the Company announced that the long-running appeal by Finch et al to overturn the December 2020 Judicial Review judgment upholding the legality of Horse Hill's planning consent, has been refused by the Court of Appeal. This judgment means that the planning consent for Horse Hill oil production was granted entirely lawfully and, as such, confirms that Horse Hill can remain operational until the end of its commercial field life.

In May 2022, the Company announced that the Environment Agency ("EA") has granted UKOG's 85.635% owned Horse Hill oil field a full Production Permit ("PP"). The PP enables production and water re-injection operations, incineration of waste gas, maintenance/workovers and the drilling of further development wells. To date, production at Horse Hill has operated under the umbrella of prior testing consents which excluded any ability to reinject produced saline formation water.

Principal risks and uncertainties of the company

The principal risks and uncertainties facing the company are continuously monitored and reported to the board of directors ("the Board") on a regular basis. The Board reviews these risks and focuses on ensuring that effective systems of internal financial and non-financial controls are in place and monitored.

The company's principal financial instruments are trade receivables, trade payables and cash at bank, and borrowings. The main purpose of these financial instruments is to fund the company's operations.

It is, and has been throughout the period under review, the company's policy that no trading in financial instruments shall be undertaken. The main risk arising from the company's financial instruments is liquidity risk.

Liquidity risk is the risk that the company will encounter difficulty in meeting its financial obligations as they fall due. The company's objective is to maintain a balance between continuity of funding from shareholders and Joint Operating Agreement partners and flexibility of operations in the use of its cash resources.

Exploration risk is the risk that the company fails to locate and explore hydrocarbon bearing prospects that have the potential to deliver commercially, e.g. key wells are dry or less successful than anticipated. This is managed through the analysis of available technical information to determine work programme. Risk-sharing arrangements are entered into to reduce downside risk.

Permitting risk is the risk that the company encounters issues and delays related to planning, environmental, licensing and other permitting activities which delay investee operations, particularly with exploration drilling operations.

Key performance indicators ("KPIs")

Due to the current status of the company, the Board has not identified any performance indicators as key.

Signed on behalf of the Board by:


.....
Stephen Sanderson

Director

23 June 2022

HORSE HILL DEVELOPMENTS LTD
DIRECTORS REPORT Cont'd

Employees

Only the directors of the company are direct employees.

Directors of the company

The directors who held office during the year were:

Stephen Paul Sanderson
George Frangeskides
Kiran Morzaria

Charitable and political donations

The company made no political or charitable donations during the year (2020: £nil).

Independent Auditor

PKF Littlejohn LLP has signalled its willingness to continue in office as auditor.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing the Strategic Report, the Director's 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 director has elected to prepare the financial statements in accordance with United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 101 'Reduced Disclosure Framework' ('FRS 101'). 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 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.

HORSE HILL DEVELOPMENTS LTD.
DIRECTORS REPORT Cont'd

Statement as to disclosure of information to the auditor

As at the date of this report the serving directors confirm that:

- So far as each Director is aware, there is no relevant audit information of which the Company's auditors are unaware, and
- They have taken all the steps that they ought to have taken as Directors' in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Signed on behalf of the Board by:

A handwritten signature in black ink, appearing to read 'Stephen Sanderson', written over a dotted line.

Stephen Sanderson
Director

23 June 2022

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF HORSE HILL DEVELOPMENTS LTD

OPINION

We have audited the financial statements of Horse Hill Developments Ltd (the 'company') for the year ended 30 September 2021 which comprise the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Changes in Equity and notes to the financial statements, including 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 state of the company's affairs as at 30 September 2021 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

CONCLUSIONS RELATING TO GOING CONCERN

In auditing the financial statements, we have concluded that the director's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

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 contained within the annual report. 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. 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 course of 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 this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF HORSE HILL DEVELOPMENTS LTD

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.

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 the Directors' report.

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

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

RESPONSIBILITIES OF DIRECTORS

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

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

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

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

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

- We obtained an understanding of the company and the sector in which it operates to identify laws and regulations that could reasonably be expected to have a direct effect on the financial statements. We obtained our understanding in this regard through discussions with management, industry research, application of cumulative audit knowledge and experience of the sector.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF HORSE HILL DEVELOPMENTS LTD

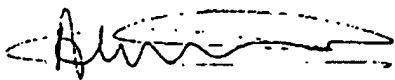
- We determined the principal laws and regulations relevant to the company in this regard to be those arising from:
 - Companies Act 2006
 - International Financial Reporting Standards
 - Employment Law
 - Bribery Act
 - Tax legislation
 - Health and Safety legislation
 - Environmental law
- We designed our audit procedures to ensure the audit team considered whether there were any indications of non-compliance by the company with those laws and regulations. These procedures included, but were not limited to:
 - enquiries of management
 - review of board and other committee minutes
- We also identified the risks of material misstatement of the financial statements due to fraud. We considered, in addition to the non-rebuttable presumption of a risk of fraud arising from management override of controls, we did not identify any significant fraud risks.
- As in all of our audits, we addressed the risk of fraud arising from management override of controls by performing audit procedures which included, but were not limited to: the testing of journals; reviewing accounting estimates for evidence of bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

Because of the inherent limitations of an audit, there is a risk that we will not detect all irregularities, including those leading to a material misstatement in the financial statements or non-compliance with regulation. This risk increases the more that compliance with a law or regulation is removed from the events and transactions reflected in the financial statements, as we will be less likely to become aware of instances of non-compliance. The risk is also greater regarding irregularities occurring due to fraud rather than error, as fraud involves intentional concealment, forgery, collusion, omission or misrepresentation.

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.



Alistair Roberts (Senior Statutory Auditor)
For and on behalf of PKF Littlejohn LLP
Statutory Auditor

15 Westferry Circus
Canary Wharf
London E14 4HD

DATE 23 June 2022

HORSE HILL DEVELOPMENTS LTD
STATEMENT OF COMPREHENSIVE INCOME
Year ended 30 September 2021

	Note	2021	2020
		£	£
Turnover	5	1,357,780	751,534
Cost of Sales		(1,303,394)	(1,905,170)
Gross loss		54,386	(1,153,636)
Administrative expenses		(1,797,014)	(9,551,769)
Operating loss	6	(1,742,628)	(10,705,405)
Interest expense	7	(19,526)	(584,918)
Exploration Write Off		(6,801)	(6,597,655)
Loss before taxation		(1,768,955)	(17,887,978)
Taxation	9	-	-
Loss for the year		(1,768,955)	(17,887,978)
Other comprehensive income		-	-
Total comprehensive loss		(1,768,955)	(17,887,978)

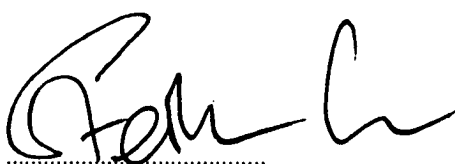
The company's results are derived from continuing operations.

The notes on pages 13 to 23 form part of these financial statements.

HORSE HILL DEVELOPMENTS LTD
STATEMENT OF FINANCIAL POSITION
30 September 2021

	Note	30 September 2021 £	30 September 2020 £
Non-current assets			
Intangible assets	10	1,025,700	1,025,700
Tangible assets	11	4,101,143	5,015,671
		<u>5,126,843</u>	<u>6,041,371</u>
Current assets			
Trade & other receivables	12	149,980	219,141
Cash and cash equivalents		469,055	185,937
		<u>619,035</u>	<u>405,078</u>
Creditors: amounts falling due within one year	13	(4,120,391)	(3,883,867)
Net current assets / (liabilities)		<u>(3,501,356)</u>	<u>(3,478,789)</u>
Total assets less current liabilities		<u>1,625,487</u>	<u>2,562,582</u>
Creditors: amounts falling due after more than one year	14	(19,678,748)	(19,109,222)
Provisions for liabilities	15	(422,979)	(160,645)
Net assets		<u>(18,476,240)</u>	<u>(16,707,285)</u>
Equity			
Ordinary shares	16	1,000	1,000
Share premium		3,599,400	3,599,400
Retained earnings		(22,076,640)	(20,307,685)
Total Shareholders' funds		<u>(18,476,240)</u>	<u>(16,707,285)</u>

The notes on pages 13 to 23 form part of these financial statements. These financial statements were approved by the Board on 23 June 2022, and signed on its behalf by:



Stephen Sanderson
Director

Registered number: 08808553

HORSE HILL DEVELOPMENTS LTD
STATEMENT OF CHANGES IN EQUITY

	Share capital £	Share premium £	Retained earnings £	Total £
At 1 October 2019	1,000	3,599,400	(2,419,707)	1,180,693
Loss for the period	-	-	(17,887,978)	(17,887,978)
Other comprehensive income	-	-	-	-
Total comprehensive losses	-	-	(17,887,978)	(17,887,978)
At 30 September 2020	<u>1,000</u>	<u>3,599,400</u>	<u>(20,307,685)</u>	<u>(16,707,285)</u>
 At 1 October 2020	 1,000	 3,599,400	 (20,307,685)	 (16,707,285)
Loss for the year	-	-	(1,768,955)	(1,768,955)
Other comprehensive income	-	-	-	-
Total comprehensive losses	-	-	(1,768,955)	(1,768,955)
At 30 September 2021	<u>1,000</u>	<u>3,599,400</u>	<u>(22,076,640)</u>	<u>(18,476,240)</u>

The notes on pages 13 to 23 form part of these financial statements.

HORSE HILL DEVELOPMENTS LTD
NOTES TO THE FINANCIAL STATEMENTS
Year ended 30 September 2021

1 General information

Horse Hill Developments Ltd holds interests in onshore Petroleum, Exploration and Development Licences in the United Kingdom. The company is a private company limited by shares and is incorporated and domiciled in England and Wales. The address of its registered office is The Broadgate Tower 8th Floor, 20 Primrose Street, London, EC2A 2EW.

2 Authorisation of financial statements and statement of compliance with FRS 101

The financial statements of Horse Hill Developments Ltd (the "company") for the year ended 30 September 2021 were authorised for issue by the board of directors on 23 June 2022 and the statement of financial position was signed on the board's behalf by Stephen Sanderson and Kiran Morzaria.

These financial statements were prepared in compliance with United Kingdom Accounting Standards, including Financial Reporting Standard 101 'Reduced Disclosure Framework' ('FRS 101').

3 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 the periods presented, unless otherwise stated.

Basis of preparation

The financial statements of Horse Hill Developments Limited have been prepared in accordance with Financial Reporting Standard 101, 'Reduced Disclosure Framework' (FRS 101). The financial statements have been prepared under the historical cost convention, as modified by the revaluation of land and buildings and derivative financial assets and financial liabilities measured at fair value through profit or loss, and in accordance with the Companies Act 2006.

The company has been determined to meet the criteria of a 'qualifying entity' under the definition in FRS 101. The financial statements in which the company is consolidated are available from the ultimate parent company as detailed in note 17.

The accounting policies which follow set out those policies which apply in preparing the financial statements for the year ended 30 September 2021.

Summary of disclosure exemptions

The following exemptions from the requirements of IFRS have been applied in the preparation of these financial statements, in accordance with FRS 101:

- the requirements of paragraphs 45(b) and 46-52 of IFRS 2 Share based Payment, because the share based payment arrangement concerns the instruments of another group entity;
- the requirements of IFRS 7 Financial Instruments: Disclosures,
- the requirements of paragraphs 91-99 of IFRS 13 Fair Value Measurement,
- the requirement in paragraph 38 of IAS 1 'Presentation of Financial Statements' to present comparative information in respect of:
 - (i) paragraph 79(a)(iv) of IAS 1;
 - (ii) paragraph 73(e) of IAS 16 Property, Plant and Equipment;
 - (iii) paragraph 118(e) of IAS 38 Intangible Assets;
- the requirements of paragraphs 10(d), 10(f), 39(c) and 134-136 of IAS 1 Presentation of Financial Statements;
- the requirements of IAS 7 Statement of Cash Flows;
- the requirements of paragraphs 30 and 31 of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors;
- the requirements of paragraph 17 of IAS 24 Related Party Disclosures;

HORSE HILL DEVELOPMENTS LTD
NOTES TO THE FINANCIAL STATEMENTS
Year ended 30 September 2021

3 Accounting policies (continued)

- the requirements in IAS 24 Related Party Disclosures to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member ; and
- the requirements of paragraphs 134(d)-134(f) and 135(c)-135(e) of IAS 36 Impairment of Assets.

New and Amended Standards and Interpretations

During the year, the Group adopted the following new and amended IFRSs for the first time for the reporting period commencing 1 October 2020:

- Amendments to IAS 1 and IAS 8: Definition of material
- Amendments to References to the Conceptual Framework in IFRS Standards

There is no material impact on the financial statements following the adoption of these new standards and interpretations.

New Standards and interpretations Not Yet Adopted

Certain new standards, interpretations and amendments to existing standards have been published that are effective for reporting periods starting 1 October 2021. These have not been early adopted by the Group and are not expected to have a material impact on the entity in the current or future reporting periods:

- Amendments to IFRS 3: Business Combinations – Reference to the Conceptual Framework
- Amendments to IAS 16: Property Plant and Equipment
- Amendments to IAS 37: Provisions, Contingent Liabilities and Contingent Assets
- Annual Improvements to IFRS Standards 2018-2020 Cycle

Going concern

The Directors note the substantial losses that the company has made for the year ended 30 September 2021. The cost structure of the company comprises a high proportion of discretionary spend and therefore in the event that cash flows become constrained, costs can be quickly reduced to enable the company to operate within its available funding. The company has received signed confirmation from UK Oil and Gas plc that it intends to continue to provide financial support as necessary to enable the Company to maintain its status as a going concern and to meet its financial obligations as they fall due for a minimum period of 12 months from the date of approval of these financial statements.

The Directors have prepared cash flow forecasts for the period ending 31 March 2023, which take account of the current cost and operational structure of the company. These forecasts demonstrate that the company has sufficient cash funds available or access to cash funds to allow it to continue in business for a period of at least twelve months from the date of approval of these financial statements. Accordingly, the financial statements have been prepared on a going concern basis.

Revenue

Revenue comprises the invoiced value of goods and services supplied by the Group, excluding value added tax and trade discounts.

Revenue from the sale of oil and petroleum products is recognised when control passes to the customer. This generally occurs when the product is physically transferred into a vessel, pipe or other delivery mechanism.

HORSE HILL DEVELOPMENTS LTD
NOTES TO THE FINANCIAL STATEMENTS
Year ended 30 September 2021

3 Accounting policies (continued)

Revenue from the production of oil, from fields in which the company has an interest with other producers, is recognised based on the company working interest and the terms of the relevant production sharing contracts. Differences between oil lifted and sold and the company share of production are not significant.

Revenues from the sale of oil produced as a by-product of the evaluation or "testing" phase of a well are offset against the cost of the intangible asset that is being created.

Intangible Exploration & Evaluation assets

The Group accounts for exploration and evaluation costs in accordance with the requirements of IFRS 6 Exploration for and Evaluation of Mineral resources as follows:

- Pre-licence costs (costs incurred prior to obtaining the legal rights to explore an area) are expensed immediately to the Statement of Comprehensive income.
- Exploration licence and leasehold land and property acquisition costs are capitalised in intangible assets.
- Licence costs paid in connection with a right to explore in an existing exploration area are capitalised and amortised over the term of the permit.
- Costs directly associated with an exploration well are capitalised as exploration and evaluation intangible assets until the drilling of the well is complete and the results have been evaluated. These costs include directly attributable employee remuneration, materials and consumables, drilling (including coring and sampling), evaluation of technical feasibility and commercial viability (including appraisal drilling and production testing).
- Revenues generated from the sale of hydrocarbons during this phase are offset against the cost of the intangible asset.

Exploration and evaluation assets are assessed for impairment at each reporting date, before reclassification and whenever facts and circumstances suggest that they may be impaired. If no future activity is planned, the licence has been relinquished or has expired, or where development is likely to proceed but there are indications that the exploration and evaluation asset costs are unlikely to be recovered in full either by development or through sale, the carrying value of the asset is written off to the Statement of Comprehensive income.

Property, plant and equipment - Oil and gas properties

Oil and gas properties and other property, plant and equipment are stated at cost, less accumulated depreciation and accumulated impairment losses.

The initial cost of an asset comprises its purchase price or construction cost, any costs directly attributable to bringing the asset into operation, the initial estimate of the decommissioning obligation and, for qualifying assets (where relevant), borrowing costs. The purchase price or construction cost is the aggregate amount paid and the fair value of any other consideration given to acquire the asset. The capitalised value of any associated finance lease is also included within property, plant and equipment.

Oil and gas properties are depreciated/amortised on a unit-of-production basis over the total proved developed and undeveloped reserves of the field concerned. The unit-of-production rate calculation for the depreciation/amortisation of field development costs takes into account expenditures incurred to date, together with sanctioned future development expenditure.

HORSE HILL DEVELOPMENTS LTD
NOTES TO THE FINANCIAL STATEMENTS
Year ended 30 September 2021

3 Accounting policies (continued)

The Company's interests in oil and gas properties are assessed for indication of impairment including events or changes in circumstances which indicate that the carrying value of an asset may not be recoverable. Any impairment in value is charged to the Statement of Comprehensive income.

Other property, plant and equipment

Other property, plant and equipment is stated at cost to the Company less accumulated depreciation. These assets are generally depreciated on a straight-line basis over their estimated useful lives, which is between 2 and 10 years depending on the type of asset.

Decommissioning

A provision for decommissioning is recognised where a liability for the removal of production facilities or site restoration exists. A corresponding asset is included in the appropriate category of the Group's non-current assets (intangible exploration and evaluation assets and property, plant and equipment) depending on the underlying accounting treatment for the operations or asset leading to the decommissioning provision. The asset is assessed for impairment and depleted as necessary.

Taxation

The tax charge includes both current and deferred tax.

Current tax assets and liabilities are measured at the amount expected to be paid to or received from the tax authorities, calculated using tax rates that have been enacted or substantively enacted by the balance sheet date. Taxable profits or losses differ from the reported profit or loss before taxation in the Statement of Comprehensive income as it excludes items that are taxable or deductible in different periods, as well as items that are never deductible or taxable.

Deferred income taxes are calculated using the liability method on temporary differences. Deferred tax is generally provided on the difference between the carrying amounts of assets and liabilities and their tax bases. However, deferred tax is not provided on the initial recognition of goodwill, nor on the initial recognition of an asset or liability unless the related transaction is a business combination or affects tax or accounting profit.

Deferred tax on temporary differences associated with shares in subsidiaries and joint ventures is not provided if reversal of these temporary differences can be controlled by the Company and it is probable that reversal will not occur in the foreseeable future. In addition, tax losses available to be carried forward as well as other income tax credits to the Company are assessed for recognition as deferred tax assets.

Deferred tax liabilities are provided in full, with no discounting. Deferred tax assets are recognised to the extent that it is probable that the underlying deductible temporary differences will be able to be offset against future taxable income. Deferred tax assets and liabilities are calculated at tax rates that are expected to apply to their respective period of realisation, provided they are enacted or substantively enacted at the balance sheet date.

Changes in deferred tax assets or liabilities are recognised as a component of tax expense in the Statement of Comprehensive income, except where they relate to items that are charged or credited directly to equity in which case the related deferred tax is also charged or credited directly to equity.

Financial Assets

Financial assets are categorised as loans and receivables. Financial assets are assigned to the different categories by management on initial recognition, depending on the purpose for which they were acquired, and are recognised when the company becomes party to contractual arrangements. Loans and receivables are initially recorded at fair value.

HORSE HILL DEVELOPMENTS LTD
NOTES TO THE FINANCIAL STATEMENTS
Year ended 30 September 2021

3 Accounting policies (continued)

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Trade, most other receivables and cash and cash equivalents fall into this category of financial assets. Loans and receivables are measured subsequent to initial recognition at amortised cost using the effective interest method, less provision for impairment. Any change in their value through impairment or reversal of impairment is recognised in the Statement of Comprehensive income.

Provision against trade receivables is made when there is objective evidence that the company will not be able to collect all amounts due to it in accordance with the original terms of those receivables. The amount of the write-down is determined as the difference between the asset's carrying amount and the present value of estimated future cash flows.

Cash and cash equivalents comprise cash on hand and short-term deposits. Any interest earned is classified as interest income within finance income.

A financial asset is derecognised only where the contractual rights to the cash flows from the asset expire or the financial asset is transferred, and that transfer qualifies for derecognition. A financial asset is transferred if the contractual rights to receive the cash flows of the asset have been transferred or the company retains the contractual rights to receive the cash flows of the asset but assumes a contractual obligation to pay the cash flows to one or more recipients.

A financial asset that is transferred qualifies for derecognition if the company transfers substantially all the risks and rewards of ownership of the asset, or if the company neither retains nor transfers substantially all the risks and rewards of ownership but does transfer control of that asset.

Financial Liabilities

Financial liabilities are obligations to pay cash or other financial assets and are recognised when the company becomes a party to the contractual provisions of the instrument.

All financial liabilities initially recognised at fair value less transaction costs and thereafter carried at amortised cost using the effective interest method, with interest-related charges recognised as an expense in finance cost in the Statement of Comprehensive income. A financial liability is derecognised only when the obligation is extinguished, that is, when the obligation is discharged or cancelled or expires.

Derivative financial instruments

Derivative instruments are recorded at cost and adjust for their market value as applicable. They are assessed for any equity and debt component which is subsequently accounted for in accordance with IFRS's.

Impairment of financial assets

At the end of each reporting period, a provision is made if there is sufficient evidence that a financial asset or group of financial assets has been impaired. Provision against trade receivables is made when there is objective evidence that the Group will not be able to collect all amounts due to it in accordance with the original terms of those receivables. The amount of the write-down is determined as the difference between the asset's carrying amount and the present value of estimated future cash flows.

Foreign Currencies

The financial statements are presented in UK pound sterling, the functional currency of the Company. Transactions in other currencies are translated at the exchange rate ruling at the date of the transaction. Monetary assets and liabilities in foreign currencies are translated at the rates of exchange ruling at the balance sheet date.

HORSE HILL DEVELOPMENTS LTD
NOTES TO THE FINANCIAL STATEMENTS
Year ended 30 September 2021

3 Accounting policies (*continued*)

Non-monetary items that are measured at historical cost in a foreign currency are translated at the exchange rate at the date of the transaction. Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Any exchange differences arising on the settlement of monetary items or on translating monetary items at rates different from those at which they were initially recorded are recognised in the profit or loss in the period in which they arise. Exchange differences on non-monetary items are recognised in other comprehensive income to the extent that they relate to a gain or loss on that non-monetary item taken to other comprehensive income, otherwise such gains and losses are recognised in the Statement of Comprehensive income.

The company's functional currency and presentational currency is Sterling.

4 Significant accounting judgements, estimates and assumptions

The preparation of the Company's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses during the reporting period, and reported amounts of assets and liabilities, and the disclosure of contingent liabilities at the date of the consolidated financial statements. Estimates and assumptions are continuously evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. However, actual outcomes can differ from these estimates.

In particular, the Company has identified the following areas where significant judgements, estimates and assumptions are required, and where if actual results were to differ, this could materially affect the financial position for financial results reported in a future period. Further information on each of these areas and how they impact the various accounting policies are described below and also in the relevant notes to the financial statements.

Judgements

(i) Contingencies

Contingent liabilities may arise from the ordinary course of business in relation to claims against the Group, including legal, contractor, land access and other claims. By their nature, contingencies will be resolved only when one or more uncertain future events occur or fail to occur. The assessment of the existence, and potential quantum, of contingencies inherently involves the exercise of significant judgement and the use of estimates regarding the outcome of future events.

Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting 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 described below. The Group based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market change or circumstances arising beyond the control of the Group. Such changes are reflected in the assumptions when they occur.

(i) Hydrocarbon reserve and resource estimates

The Company estimates hydrocarbon reserves in line with the principles contained in the SPE Petroleum Resources Management Reporting System (PRMS) framework. As the economic assumptions used may change and as additional geological information is obtained during the operation of a field, estimates of recoverable reserves may change.

HORSE HILL DEVELOPMENTS LTD
NOTES TO THE FINANCIAL STATEMENTS
Year ended 30 September 2021

4 Significant accounting judgements, estimates and assumptions (continued)

The volume of proved and probable oil and gas reserves is an estimate that affects the unit of production depreciation of producing oil and gas property, plant and equipment as well as being a significant estimate affecting decommissioning provisions, impairment calculations and the valuation of oil and gas properties in business combinations.

Contingent resources affect the valuation of exploration and exploration assets acquired in business combinations and the estimation of the recoverable value of those assets in impairment tests. Proved and probable reserves and contingent resources are estimated using standard recognised evaluation techniques. Estimates are reviewed at least annually and are regularly estimated by independent consultants. Future development costs are estimated taking into account the level of development required to produce the reserves by reference to operators, where applicable, and internal engineers.

The current long-term Brent oil price assumption used in the estimation of reserves is US\$64/bbl. The carrying amount of oil and gas development and production assets at 30 September 2021 is shown in Note 10.

(ii) Recoverable value of property, plant and equipment

Management reviews the Company's reported property, plant and equipment each reporting period to determine whether any indication of impairment exists. Where an indicator of impairment exists, a formal estimate of the recoverable amount is made, which requires the use of key assumptions and judgements such as long-term oil prices, foreign exchange rates, discount rates, reserves, production profiles and capital expenditure, all of which are subject to risk and uncertainty.

Details of the Company's property, plant and equipment are disclosed in Note 11 to the financial statements.

(iii) Decommissioning costs

The estimated cost of decommissioning at the end of the producing lives of fields is periodically reviewed and is based on forecast prices and technology at the balance sheet date. Provision is made for the estimated cost using a discounted cash flow method and a risk free rate of return.

Details of the Company's decommissioning provisions are disclosed in Note 15 to the financial statements

(iv) Deferred tax asset recognition

Deferred tax assets are recognised for unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and the level of future taxable profits together with future tax planning strategies.

Estimates of future taxable profits are based on cash flows expected to be generated from internal estimates of projected production and costs.

Fair value measurement

The company measures financial instruments, such as derivatives, at fair value at each balance sheet date. From time to time, the fair values of non-financial assets and liabilities are required to be determined, e.g., when the entity acquires a business, or where an entity measures the recoverable amount of an asset or cash-generating unit (CGU) at FVLCD.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

HORSE HILL DEVELOPMENTS LTD
NOTES TO THE FINANCIAL STATEMENTS
Year ended 30 September 2021

4 Significant accounting judgements, estimates and assumptions (continued)

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs. From time to time external valuers are used to assess FVLCD of the company's non-financial assets. Involvement of external valuers is decided upon by the valuation committee after discussion with and approval by the company's director. Selection criteria include market knowledge, reputation, independence and whether professional standards are maintained. Valuers are normally rotated every three years. The valuation committee decides, after discussions with the company's external valuers, which valuation techniques and inputs to use for each case.

Changes in estimates and assumptions about these inputs could affect the reported fair value.

5 Revenue

The Company derives revenue solely within the United Kingdom from the transfer of goods and services to external customers which is recognised at a point when the performance obligations has been satisfied by the transfer of goods. All the Company's revenue is derived from the sale of crude oil. Revenues for the year were £1,357,780 (2020: 751,534) and were derived from one customer.

6 Operating loss	2021	2020
	£	£
Arrived at after charging:		
Licence fee amortisation	12,175	22,878
Foreign exchange losses	14,107	18,468
Auditors' remuneration	10,000	8,500
Depreciation	<u>330,631</u>	<u>4,093</u>

7 Interest Expense	2021	2020
	£	£
Interest on loans from shareholders	<u>19,526</u>	<u>584,918</u>

Shareholder loans accrue interest at Bank of England base rate plus 1%, at Bank of England base rate plus 10% and at Bank of England base rate.

8 Directors' remuneration

There were no employees other than the Directors (2020: Nil). No directors received remuneration from the Company during the Period.

HORSE HILL DEVELOPMENTS LTD
NOTES TO THE FINANCIAL STATEMENTS
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9 Taxation	2021	2020
	£	£
(a) Analysis of tax charged / (credited)		
Current taxation		
UK corporation tax	-	-
Total current income tax	-	-
Deferred taxation		
Current year (credit) / charge	-	-
Adjustments to the estimated recoverable amounts of deferred tax assets arising in previous periods	-	-
Total deferred taxation	-	-

(b) Factors affecting current tax charge / (credit)

The tax on loss before tax for the year differs from the standard rate of corporation tax in the UK of 19% (2020 – 19%). The differences are reconciled below:

	2021	2020
	£	£
(Loss) before tax	(1,768,955)	(17,887,978)
Corporation tax at standard rate	(336,101)	(3,398,716)
Pre-trading expenditure carried forward	241,514	3,042,514
Trading expenditure carried forward	24,045	239,686
Non-trade loan expenditure carried forward		111,134
Non-deductible costs	70,542	5,382
Total tax charge / (credit)	-	-

10 Intangible assets

Cost	Exploration and evaluation assets	Decommi- ssioning Asset	Total
	£	£	£
At 1 October 2019	16,417,933	126,986	16,544,919
Additions	7,829,708	-	7,829,708
Offset by income from sales of oil from long term testing	(1,751,369)	-	(1,751,369)
Exploration write off & Impairment	(14,443,078)	-	(14,443,078)
Transfer to tangible fixed assets	(7,027,494)	(126,986)	(7,154,480)
At 30 September 2020	1,025,700	-	1,025,700
At 30 September 2021	1,025,700	-	1,025,700

HORSE HILL DEVELOPMENTS LTD
NOTES TO THE FINANCIAL STATEMENTS
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	Oil & Gas properties £	Decommissi -oning asset £	Property Plant & Equipment £	Total £
11 Tangible fixed assets				
Cost				
As at 1 October 2020	5,519,550	162,762	93,703	5,577,015
Additions	591,427	-	13,131	604,558
Adjustments due to changes in estimates	-	267,871	-	267,871
As at 30 September 2021	6,110,977	430,633	106,834	6,648,444
Depreciation & impairment				
As at 1 October 2020	735,772	2,116	22,456	760,344
Depreciation charge for the year	291,668	5,540	33,423	330,631
Impairment	1,456,326	-	-	1,456,326
As at 30 September 2021	2,483,766	7,656	55,879	2,547,301
Carrying value				
As at 30 September 2020	4,783,778	160,646	71,247	5,015,671
As at 30 September 2021	3,627,211	422,977	50,955	4,101,143

12 Trade & other receivables	2021	2020
	£	£
Accrued Income	85,066	131,538
Other debtors and prepayments	64,914	87,603
	<u>149,980</u>	<u>219,141</u>

13 Creditors: amounts falling due within one year	2021	2020
	£	£
Trade creditors	129,825	130,030
Accruals and other payables	165,000	411,663
Amounts payable to group companies	3,825,566	3,342,174
	<u>4,120,391</u>	<u>3,883,867</u>

14 Borrowings	2021	2020
	£	£
The company had loan balances outstanding to shareholders (related parties) as detailed below.		
UK Oil & Gas Plc	16,591,518	16,025,078
Dorismus Plc	567,397	566,830
Alba Mineral Resources Plc	2,519,833	2,517,314
	<u>19,678,748</u>	<u>19,109,222</u>

The loans are payable on determination by the Board of HHDL. The loans attracted an interest rate of 0.1% above Bank of England base Rate during the year.

HORSE HILL DEVELOPMENTS LTD
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15 Decommissioning Provision	2021	2020
	£	£
Brought forward	160,645	144,341
Adjustments due to change in estimates	246,267	16,304
Unwind of discount in the year	16,067	-
Provision carried forward at 30 September	<u>422,979</u>	<u>160,645</u>

The company makes full provision for the future cost of decommissioning oil production facilities and pipelines on a discounted basis on the installation of those facilities. The decommissioning provision represents the present value of decommissioning costs relating to oil and gas properties.

These provisions have been created based on the company's internal estimates. Assumptions based on the current economic environment have been made, which management believes are a reasonable basis upon which to estimate the future liability. These estimates are reviewed regularly to take into account any material changes to the assumptions.

However, actual decommissioning costs will ultimately depend upon future market prices for the necessary decommissioning works required that will reflect market conditions at the relevant time. Furthermore, the timing of decommissioning is likely to depend on when the fields cease to produce at economically viable rates. This, in turn, will depend upon future oil and gas prices, which are inherently uncertain.

16 Share Capital	2021		2020	
	Number	£	Number	£
Allotted, called up and fully paid shares				
Ordinary shares of £1 each	<u>1,000</u>	<u>1,000</u>	<u>1,000</u>	<u>1,000</u>

17 Ultimate parent undertaking

The company's immediate, ultimate and controlling parent undertaking is UK Oil & Gas plc, a company incorporated in the United Kingdom

The largest group in which the results of the company are consolidated is that headed by UK Oil & Gas plc. These financial statements are available upon request from UK Oil & Gas plc, The Broadgate Tower, 8th Floor, 20 Primrose Street, London, EC2A 2EW.

18 Commitments & Contingent Liabilities

As at 30 September 2021, the company had the following material commitments:

Ongoing exploration expenditure is required to maintain title to the company's exploration permits. No provision has been made in the financial statements for these amounts as the expenditure is expected to be fulfilled in the normal course of the operations of the company.

There were no contingent liabilities at 30 September 2021.

19 Related parties

Refer to Note 8 and Note 13 which provide detail in respect of the related party transactions in the year.