

**HALO OFFSHORE UK LIMITED  
ANNUAL REPORT AND  
FINANCIAL STATEMENTS  
2018**



<b>CONTENTS</b>	<b>PAGE</b>
Directors, Officers and Advisers	3
Report of the Directors	4
Statement of Directors' Responsibilities	6
Independent Auditor's Report on the Financial Statements	7
Income Statement	9
Statement of Comprehensive Income	9
Balance Sheet	10
Statement of Changes in Equity	11
Notes to the Financial Statements	12

**Directors, Officers and Advisers****Directors**

Andrew Cochran  
Jonathan Henry

**Registered Number**

SC342665

**Secretary and Registered Office**

Matthew Small  
13 Queen's Road  
Aberdeen  
AB15 4YL  
United Kingdom

**Auditor**

Nexia Smith & Williamson Audit Limited  
Portwall Place  
Portwall Lane  
Bristol BS1 6NA  
United Kingdom

**REPORT OF THE DIRECTORS**  
**for the year ended 31 December 2018**

The Directors present their report together with the financial statements of Halo Offshore UK Limited (formerly Third Energy Offshore Limited) for the year ended 31 December 2018.

**Principal activity and business review**

The principal activity of the Company is the appraisal and development of gas assets in the UK Continental Shelf.

The Company has taken advantage of the small companies exemption not to prepare a strategic report.

**Results and dividends**

The Company loss for the year ended 31 December 2018 was £27,557,000 (2017: loss of £1,046,000). The Directors do not recommend the payment of a dividend.

**Going concern**

The Company is reliant upon its parent Company, Hague and London Oil plc, providing sufficient funds to enable Halo Offshore UK Limited to continue in operational existence. The Company has received confirmation that Hague and London Oil plc will continue to provide this support for the foreseeable future. The parent Company, and wider group are, however, dependent on securing third party financial support in order to meet significant cash commitments falling due within the next twelve months, and the foreseeable future thereafter. The Group is currently in discussion with a number of finance providers to secure the facilities required to cover existing obligations, but no facility agreement has yet been signed. The directors of Hague and London Oil plc remain confident of securing the necessary financing facilities and accordingly, the directors of this Company continue to adopt the going concern basis in preparing these financial statements.

**Directors**

The Directors in office during the year and at the end of the year are shown below:

Andrew Cochran (appointed 28 December 2018)

Jonathan Henry (appointed 28 December 2018)

Rasik Valand (resigned 28 December 2018)

John Dewar (resigned 2 March 2018)

Andrew Mortimer (appointed 2 March 2018; resigned 28 December 2018)

**Auditor**

A resolution to reappoint the auditor, Nexia Smith & Williamson Audit Limited, will be proposed at the forthcoming Annual General Meeting.

**Disclosure of Information to the Auditor**

The Directors at the date of approval of this Annual Report individually confirm that:

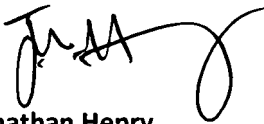
- so far as the Director is aware, there is no relevant audit information of which the Company's auditor is unaware; and
- the Director has taken all the steps that he ought to have taken as a Director in order to make himself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provision of Section 418 of the Companies Act 2006.

**Company Name and Registered Number**

The registered number of Halo Offshore UK Limited is SC342665.

On behalf of the Board

A handwritten signature in black ink, appearing to read 'Jonathan Henry', with a long, sweeping horizontal stroke extending to the right.

**Jonathan Henry**

Director

16 September 2019

## **STATEMENT OF DIRECTORS' RESPONSIBILITIES**

**for the year ended 31 December 2018**

The Directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with FRS101 and applicable law. Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period and otherwise comply with the Companies Act 2006. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;
- state whether FRS101 has been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.



## **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF HALO OFFSHORE UK LIMITED**

### **Opinion**

We have audited the financial statements of Halo Offshore UK Limited (the 'company') for the year ended 31 December 2018 which comprise the Income Statement, Balance Sheet, Statement of Changes in Equity and the notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including 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 31 December 2018 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.

### **Material uncertainty related to going concern**

We draw attention to note 1 of the financial statements which indicates that the Company is reliant on its parent Company, Hague and London Oil plc providing sufficient funds to enable the Company to continue in operational existence. As referenced in the financial statements of Hague and London Oil plc for the year ended 31 December 2018, the wider group is dependent on securing third party financial support in order to meet significant cash commitments falling due within the next twelve months, and the foreseeable future thereafter. While the Group is currently in discussion with a number of finance providers, and the directors of Hague and London Oil plc are confident of securing the facilities required to cover existing obligations, no facility agreement has yet been signed.

As stated in note 1, these conditions indicate that a material uncertainty exists which may cast significant doubt on the Group's and therefore this Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

**Other information**

The other information comprises the information included in the Annual Report and Financial Statements, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

**Opinion on other matters prescribed by the Companies Act 2006**

In our opinion, based on the work undertaken in the course of the audit:

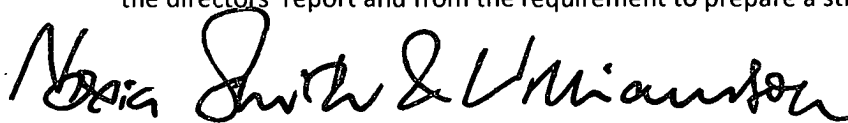
- the information given in the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the directors' report has been prepared in accordance with applicable legal requirements.

**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 directors' report.

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 directors' report and from the requirement to prepare a strategic report.



Carl Deane

Senior Statutory Auditor,  
for and on behalf of

**Nexia Smith & Williamson Audit Limited**  
Statutory Auditor and Chartered Accountants  
Portwall Place, Portwall Lane  
Bristol BS1 6NA  
United Kingdom  
16 September 2019



**Income Statement  
for the year ended 31 December 2018**

	<b>Notes</b>	<b>2018 £'000</b>	<b>2017 £'000</b>
Cost of sales		-	(183)
Gross loss		-	(183)
Administrative expenses		(189)	(861)
Intercompany loan waiver		1,829	-
Recognition of contingent consideration provision		(4,721)	-
Impairment of intangible assets		(24,474)	-
<b>Operating loss</b>	<b>2</b>	<b>(27,555)</b>	<b>(1,045)</b>
Finance costs	<b>4</b>	<b>(2)</b>	<b>(1)</b>
<b>Loss before taxation</b>		<b>(27,557)</b>	<b>(1,046)</b>
Taxation	<b>5</b>	-	-
<b>Loss for the financial year</b>		<b>(27,557)</b>	<b>(1,046)</b>
<b>Attributable to:</b>			
Equity shareholders of the Company		(27,557)	(1,046)

The accompanying accounting policies and notes form an integral part of these financial statements.

**Statement of Comprehensive Income  
for the year ended 31 December 2018**

	<b>2018 £'000</b>	<b>2017 £'000</b>
Loss for the financial year	(27,557)	(1,046)
<b>Total comprehensive loss for the financial year attributable to the Company's equity shareholders</b>	<b>(27,557)</b>	<b>(1,046)</b>

The accompanying accounting policies and notes form an integral part of these financial statements.

**Balance Sheet  
as at 31 December 2018**

	Notes	2018 £'000	2017 £'000
<b>Assets</b>			
<b>Non-current assets</b>			
Intangible assets	6	13,346	33,739
<b>Current assets</b>			
Inventories	7	183	-
Trade and other receivables	8	337	280
Cash and cash equivalents		-	2
		<u>520</u>	<u>282</u>
<b>Total assets</b>		<u>13,866</u>	<u>34,021</u>
<b>Equity and liabilities</b>			
<b>Capital and reserves attributable to the Company's equity shareholders</b>			
Share capital	9	46,065	30
Retained earnings		<u>(39,241)</u>	<u>(11,684)</u>
<b>Total equity</b>		<u>6,824</u>	<u>(11,654)</u>
<b>Current liabilities</b>			
Trade and other payables	10	2,321	45,675
Provisions	12	<u>2,500</u>	<u>-</u>
		<u>4,821</u>	<u>45,675</u>
<b>Non-current liabilities</b>			
Provisions		<u>2,221</u>	<u>-</u>
<b>Total liabilities</b>		<u>7,042</u>	<u>45,675</u>
<b>Total equity and liabilities</b>		<u>13,866</u>	<u>34,021</u>

The financial statements were approved by the Board of Directors on 16 September 2019 and were signed on its behalf by:

  
**Jonathan Henry**

Director

Company No: SC342665

The accompanying accounting policies and notes form an integral part of these financial statements.

**Statement of Changes in Equity  
for the year ended 31 December 2018**

	<b>Share capital £'000</b>	<b>Retained earnings £'000</b>	<b>Total £'000</b>
Balance at 1 January 2018	30	(11,684)	(11,654)
<b>For the financial year ended 31 December 2018</b>			
Loss for the year	-	(27,557)	(27,557)
<b>Total comprehensive expense</b>	-	(27,557)	(27,557)
Issue of shares (note 9)	46,035	-	46,035
<b>Balance at 31 December 2018</b>	<b>46,065</b>	<b>(39,241)</b>	<b>6,824</b>
Balance at 1 January 2017	30	(10,638)	(10,608)
<b>For the financial year ended 31 December 2017</b>			
Loss for the year	-	(1,046)	(1,046)
<b>Total comprehensive expense</b>	-	(1,046)	(1,046)
<b>Balance at 31 December 2017</b>	<b>30</b>	<b>(11,684)</b>	<b>(11,654)</b>

The accompanying accounting policies and notes form an integral part of these financial statements.

**Notes to the Financial Statements  
for the year ended 31 December 2018**

**1. Principal Accounting Policies**

**Basis of Preparation**

Halo Offshore UK Limited ("the Company"), formerly Third Energy Offshore Limited is a limited company, incorporated in Scotland. The address of the registered office is 13 Queen's Road, Aberdeen, AB15 4YL, United Kingdom.

The annual financial statements have been prepared in accordance with Financial Reporting Standard 100 Application of Financial Reporting Requirements ("FRS 100") and Financial Reporting Standard 101 Reduced Disclosure Framework ("FRS 101")

**Disclosure exemptions adopted**

In preparing these financial statements the Company has taken advantage of all disclosure exemptions conferred by FRS 101. Therefore, these financial statements do not include:

- certain disclosures regarding the company's capital;
- a statement of cash flows;
- the effect of future accounting standards not yet adopted;
- the disclosure of the remuneration of key management personnel

In addition, and in accordance with FRS 101 further disclosure exemptions have been adopted because equivalent disclosures are included in the Consolidated Financial Statements for the Group in which the Company is included. These financial statements do not include certain disclosures in respect of:

- Financial instruments (other than certain disclosures required as a result of recording financial instruments at fair value)
- Fair value measurement (other than certain disclosures required as a result of recording financial instruments at fair value)
- Related party transactions

The Company has adopted FRS101 for the first time in these financial statements (see note 16).

**Going concern basis of preparation**

The Company is reliant upon its parent Company, Hague and London Oil plc, to provide sufficient funds for the Company to continue to in operational existence. The Company has received confirmation that the parent Company will continue to provide financial support to the Company for the foreseeable future. The parent Company, and wider group are, however, dependent on securing third party financial support in order to meet significant cash commitments falling due within the next twelve months, and the foreseeable future thereafter. The Group is currently in discussion with a number of finance providers to secure the facilities required to cover existing obligations, but no facility agreement has yet been signed. This, therefore, gives rise to a material uncertainty which may cast significant doubt on the Company's ability to continue as a going concern. The directors of Hague and London Oil plc remain confident of securing the necessary financing facilities and accordingly, the directors of the Company continue to adopt the going concern basis in preparing the financial statements.

**Cash at bank**

Cash at bank comprise cash on hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less from inception.

**Financial instruments*****Recognition and derecognition***

Financial assets and financial liabilities are recognised when the Company becomes a party to the contractual provisions of the financial instrument.

Financial assets are derecognised when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and substantially all the risks and rewards are transferred.

A financial liability is derecognised when it is extinguished, discharged, cancelled or expires.

***Classification and initial measurement of financial assets***

Except for those trade receivables that do not contain a significant financing component and are measured at the transaction price in accordance with IFRS 15, all financial assets are initially measured at fair value adjusted for transaction costs (where applicable).

Financial assets are classified into the following categories:

- amortised cost
- fair value through profit or loss (FVTPL)
- fair value through other comprehensive income (FVOCI).

In the periods presented the Company does not have any financial assets categorised as FVOCI or FVTPL.

The classification is determined by both:

- the entity's business model for managing the financial asset
- the contractual cash flow characteristics of the financial asset.

***Subsequent measurement of financial assets******Financial assets at amortised cost***

Financial assets are measured at amortised cost if the assets meet the following conditions:

- they are held within a business model whose objective is to hold the financial assets and collect its contractual cash flows
- the contractual terms of the financial assets give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding

After initial recognition, these are measured at amortised cost using the effective interest method. Discounting is omitted where the effect of discounting is immaterial. The Company's cash and cash equivalents, trade and most other receivables fall into this category of financial instruments.

***Classification and measurement of financial liabilities***

The Company's financial liabilities include trade and other payables.

Financial liabilities are initially measured at fair value, and, where applicable, adjusted for transaction costs unless the Company designated a financial liability at fair value through profit or loss.

Subsequently, financial liabilities are measured at amortised cost using the effective interest method.

All interest-related charges are included within finance costs or finance income.

**Foreign Currency**

The functional and presentational currency for the Company's financial statements is Sterling.

Monetary assets and liabilities have been translated at rates in effect at the balance sheet date, with any exchange adjustments being charged or credited to the Income Statement.

**Exploration Costs**

Exploration and evaluation costs are accounted for in accordance IFRS 6 Exploration for and Evaluation of Mineral Resources.

Pre-exploration costs incurred prior to having secured the legal rights to explore an area and general seismic data and other costs not specifically directed to an identified exploration licence are expensed directly to the income statement as they are incurred.

Costs of exploration and development are initially capitalised as exploration and evaluation assets.

Payments to acquire the legal right to explore, costs of technical services and studies, seismic acquisition, exploratory drilling, activities in relation to evaluating the technical feasibility and commercial viability of extracting a mineral asset and testing are capitalised as intangible exploration and evaluation assets.

Intangible exploration and evaluation assets are not amortised prior to the conclusion of appraisal activities but are carried forward until the existence of commercial reserves has been determined.

Following evaluation of successful exploration wells, if commercial reserves are established and the technical feasibility of extraction demonstrated, and once a project is sanctioned for commercial development, then the related capitalised exploration/evaluation costs are transferred into a single cost centre within development/production assets after testing for impairment within Property, Plant and Equipment. Where results of exploration drilling indicate the presence of hydrocarbons that are ultimately not considered commercially viable, all related costs are written off to the Income Statement.

All costs incurred after the technical feasibility and commercial viability of producing hydrocarbons has been demonstrated are capitalised within development/production assets. Subsequent expenditure is capitalised only where it either enhances the economic benefits of the development/producing asset or replaces part of the existing development/production asset. Any costs remaining associated with the part replaced are expensed.

**Impairment of Assets Other than Intangible Assets with an Indefinite Life**

At each balance sheet date, the Directors review the carrying amounts of the Company's tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. Where the asset does not generate cash flows that are independent from other assets, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but only to the extent that it does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior periods. A reversal of an impairment loss is recognised in the Income Statement immediately.

**Current Taxation**

Current tax for each taxable entity in the Company is based on the local taxable income at the local statutory tax rate enacted or substantively enacted at the balance sheet date and includes adjustments to tax payable or recoverable in respect of previous periods.

**Deferred Taxation**

Deferred taxation is calculated using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, if the deferred tax arises from the initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss, it is not recognised. Deferred tax is determined using tax rates and laws that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised.

**Provisions**

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that the Company will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (when the effect of the time value of money is material).

#### *Deferred consideration*

The Company is party to a deferred contingent consideration agreement in respect of its acquisition of the Pegasus licence interest. The Company initially recorded the fair value of the deferred contingent consideration as nil as part of the acquisition and the obligation is classified as a provision and subsequently carried at the best estimate of the payment that will be required to settle the obligation. Subsequent changes in fair value are recorded in profit or loss. The subsequent recognition of this contingent consideration follows a change in circumstance and therefore payment expectation.

#### **Equity**

Equity comprises the following:

- “Share capital” represents amounts subscribed for shares at nominal value.
- “Retained earnings” represents the accumulated profits and losses attributable to equity shareholders.

#### **Critical Accounting Judgements and Key Sources of Estimation Uncertainty**

The preparation of financial statements in conformity with generally accepted accounting practice requires management to make estimates and judgements that affect the reported amounts of assets and liabilities as well as the disclosure of contingent assets and liabilities at the balance sheet date and the reported amounts of revenues and expenses during the reporting period.

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

#### **Exploration and Evaluation Costs**

The Company’s accounting policy leads to the development of tangible and intangible fixed assets, where it is considered likely that the amount will be recoverable by future exploitation or sale, or alternatively where the activities have not reached a stage which permits a reasonable assessment of the existence of reserves. This requires management to make estimates and assumptions as to the future events and circumstances, especially in relation to whether an economically viable extraction operation can be established. Such estimates are subject to change and following initial capitalisation, should it become apparent that recovery of the expenditure is unlikely, the relevant capitalised amount will be written off to the Income Statement.

#### **Contingent consideration**

The Company initially made a judgement to record the fair value of the deferred contingent consideration in relation to the Pegasus licence as nil as part of the acquisition. The subsequent recognition of this contingent consideration follows a change in circumstance; as a result of which the Company revised its judgement of the payment expectation and recognised a provision for the first two contingent consideration payments which the Company has determined are likely to be payable.



## 2. Operating loss

	2018 £'000	2017 £'000
Operating loss is stated after charging/(crediting):		
Fees payable to the Company's auditors for the audit of the annual financial statements	14	17
Fees payable to the Company's auditors and its associates for other services to the Company:		
Tax compliance services	2	-
Impairment of intangible assets	22,645	-
Intercompany loan waiver	1,829	-
Recognition of contingent consideration provision	4,721	-
	<hr/>	<hr/>

## 3. Directors and Employees

Key management consists of all the Directors. Details of each Director's remuneration and their share options are included in the Report of the Directors. No charge for Directors' remuneration has been recognised in these financial statements.

## 4. Finance costs

	2018 £'000	2017 £'000
Other interest payable	2	1
	<hr/>	<hr/>

## 5. Taxation

### Reconciliation of the effective tax charge

	2018 £'000	2017 £'000
Loss before taxation	(27,557)	(1,046)
Loss before tax multiplied by standard rate of corporation tax in the UK 19.0% (2017: 19.25%)	(5,236)	(201)
<b>Tax effects of:</b>		
Deferred tax losses not recognised within the year	5,236	201
	<hr/>	<hr/>
Total Tax expense	-	-
	<hr/>	<hr/>

The Budget on 16 March 2016 announced that the Supplementary Charge to Corporation Tax on ring fence profits will be reduced from 20% to 10% with effect from 1 January 2016. The effective rate of tax applicable for UK ring fence oil and gas activities in 2018 was, therefore, 40% (2017: 40%).

## 5. Taxation (continued)

The ring fence rate of corporation tax applicable to upstream oil and gas profits remains at 30%.

The Company has a potential deferred tax asset at 31 December 2018 of £40.4 (2017: £37.7m) as described below. A deferred tax asset in respect of trading losses from the UK has not been recognised due to the uncertainty over timing of future profits. This unprovided deferred tax asset is recoverable against suitable future trading profits.

The Company has a pool of pre-trading expenditure of £8.0m as at 31st December 2018 (2017: £7.6m) for which no deferred tax has been recognised due to uncertainty regarding the availability of future profits against which the expenses can be realised.

In addition, the Company has a pool of pre-trading capital expenditure of £34.2 (2017: £30.1m) in respect of which capital allowances should be available at a rate of 100% thus generating trading losses. No deferred tax has been recognised in respect of this pool due to uncertainty regarding the availability of future profits against which the capital allowances can be realised.

## 6. Intangible Assets

	Exploration costs £'000
<b>Cost</b>	
At 1 January 2017	35,281
Additions	<u>1,321</u>
At 31 December 2017	36,602
Additions	<u>4,081</u>
At 31 December 2018	<u>40,683</u>
<b>Amortisation and impairment</b>	
At 1 January 2017	<u>2,863</u>
At 31 December 2017	2,863
Impairment	<u>24,474</u>
At 31 December 2018	<u>27,337</u>
<b>Net book value</b>	
At 31 December 2018	<u>13,346</u>
At 31 December 2017	<u>33,739</u>
At 1 January 2017	<u>32,418</u>

## 6. Intangible Assets (continued)

Management reviews each exploration project for indications of impairment at each balance sheet date.

Such indications would include abandoned wells, relinquishment of acreage under licence and a deterioration in market conditions.

As a result of the review and in light of the valuation determined in the sale of the Company to Hague and London Oil Plc, it has been determined by management that the intangible assets were impaired by £22.6m.

## 7. Inventories

	2018 £'000	2017 £'000
Materials inventory	183	-

## 8. Trade and Other Receivables

	2018 £'000	2017 £'000
Prepayments	337	280

The Directors consider that the carrying values of trade and other receivables are approximate to their fair values.

All the Company's receivables have been reviewed for indications of impairment. None of the receivables were found to be impaired as at 31 December 2018 (2017: £nil).

No unimpaired receivables are past due as at the reporting date (2017: £nil).

## 9. Share Capital

	2018 Number	2018 £'000	2017 Number	2017 £'000
<b>Allotted, issued and fully paid ordinary shares</b>				
At 1 January	30,000	30	30,000	30
Issued	46,035,225	46,035	-	-
At 31 December	46,065,225	46,065	30,000	30

During 2018, £46,035,225 of the amount owed to the former parent company, Third Energy Holdings Limited, was settled by the issue of share capital at par value.

## 10. Trade and Other Payables

	2018 £'000	2017 £'000
Trade payables	1,958	95
Amounts owed to group undertakings	-	45,482
Accruals	363	98
	<u>2,321</u>	<u>45,675</u>

Amounts owed to group undertakings in 2017 include £45,357,000 which was owed to the former parent company, Third Energy Holdings Limited. This amount was repayable on demand but the directors of Third Energy Holdings Limited confirmed that it was not their intention to seek repayment of this amount within the twelve months following the balance sheet date. There was no interest charged on this amount. During 2018, £46,035,225 of the amount owed to the former parent company was capitalised as share capital. Remaining balances owed to Third Energy Holdings Limited were de-recognised as a result of the sale of the Company to Hague and London Oil PLC, resulting in a credit to the income statement.

Amounts owed to group undertakings in 2017 also included £125,000 which was owed to fellow subsidiary companies. These amounts were repayable in the ordinary course of the Company's business. There was no interest charged on these amounts.

## 11. Financial Commitments

At 31 December 2018 the Company had capital commitments relating to Pegasus/Andromeda of £14,191,650 (2017: £nil).

## 12. Provisions

	Deferred consideration provision £'000
As at 1 January 2017	-
At 31 December 2017	-
Recognition of provision	4,721
At 31 December 2018	<u>4,721</u>

Contingent consideration recognised in the year of £4,721,038 relates to two future payments to be made by the Company in relation to its Pegasus interests of £2,500,000 each discounted at 3% at the reporting date. These payments are conditional on two trigger events:

1. the Final Investment Decision being made by Spirit Energy for the Pegasus development project; and
2. on delivery of first gas from the Pegasus project.

### **13. Contingent Liabilities**

A third payment of £4,000,000 is potentially payable in relation to the Pegasus licence, however this has not been recognised as management believe the likelihood of the liability arising is remote due to the factors on which the potential liability is contingent.

The Directors are not aware of any other contingent liabilities that require disclosure within the Company at 31 December 2018.

### **14. Contingent Liabilities**

The Directors are not aware of any contingent liabilities that require disclosure within the Company at 31 December 2018.

### **15. Ultimate Controlling Party**

As at 31 December 2018, the ultimate controlling party was Hague and London Oil PLC.

### **16. Transition to FRS101**

This is the first time that the Company has presented financial information under FRS101 having previously applied applicable UK accounting standards.

The date of transition to FRS 101 was 1 January 2017.

In applying FRS 101 for the first time the Company has made the following elections:

- To retain the carrying amounts of intangible assets at their previous carrying amounts under applicable UK accounting standards

No adjustments have arisen from the transition to FRS 101.