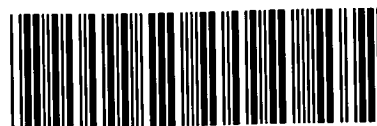


**HALO OFFSHORE UK LIMITED
ANNUAL REPORT AND
FINANCIAL STATEMENTS
2019**

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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

BDO LLP
55 Baker Street
London W1U 7EU
United Kingdom

REPORT OF THE DIRECTORS

for the year ended 31 December 2019

The Directors present their report together with the financial statements of Halo Offshore UK Limited for the year ended 31 December 2019.

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. The Directors' report has been prepared in accordance with the provisions applicable to companies entitled to the small companies' exemption.

Results and dividends

The Company loss for the year ended 31 December 2019 was £20.9m (2018: loss of £27.6m), including an impairment charge of £20.7m relating to the Andromeda and Pegasus licences. The Directors do not recommend the payment of a dividend (2018:nil).

Going concern

The Company is reliant upon its parent Company, Hague and London Oil plc ("Halo Group"), and fellow subsidiaries within the wider Halo Group to provide funds to enable Halo Offshore UK Limited to continue in operational existence. The Company has received confirmation that Hague and London Oil plc and its subsidiary undertakings comprising the Halo Group will continue to provide this support for the foreseeable future, but not less than twelve months from the date of approval of these financial statements. The Halo 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. Existing commitments for the forthcoming period include outstanding payables of £6.4m. Discussions with the parties involved are under way to address these issues within a wider Halo Group refinancing. However, the cash forecasts show that the Halo Group will require additional short-term funding.

The Halo Group has embarked on a significant cost cutting program during 2020; this initially targeted capital expenditures and operating expenditures within the portfolio but also instigated a review of the Halo Groups general and administrative costs. The Halo Group has implemented a cost reduction plan to reduce these costs by 25-50% by the end of 2020.

The Halo Group is in advanced negotiations with ENGIE to provide short-medium term financing to cover the anticipated shortfall in 2021. The Directors remain confident that the Halo Group will be able to raise the additional funding required and, accordingly, the Directors continue to adopt the going concern basis in preparing these financial statements.

However, the negative impacts of Covid-19 on global demand and oil and gas prices may make it harder for the Halo Group to secure additional financing than has been the case in the past and may therefore impact their ability to continue providing financial support to the Company. Therefore a material uncertainty exists which may cast significant doubt on the Company's ability to continue as a going concern and therefore its ability to realise its assets and discharge its liabilities in the normal course of business. These financial statements do not include the adjustments that would be necessary should the going concern basis of preparation no longer be appropriate.

Directors

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

Andrew Cochran
Jonathan Henry

Auditor

BDO LLP were appointed as auditors during the year, replacing Nexia Smith & Williamson. A resolution to reappoint the auditor, BDO LLP, 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:

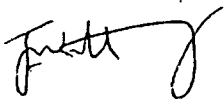
- so far as the Director is aware, there is no relevant audit information of which the Company's auditor is unaware; and
- the Director has taken all the steps that he ought to have taken as a Director in order to make himself aware of any relevant audit information and to establish that the Company's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



Jonathan Henry
Director
15 December 2020

STATEMENT OF DIRECTORS' RESPONSIBILITIES

for the year ended 31 December 2019

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 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 2019 which comprise the Income Statement, the Statement of Comprehensive Income, the Balance Sheet, the 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 Financial Reporting Standard 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 2019 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 to the financial statements which indicates the directors' considerations over going concern, in particular the impact of the Covid-19 pandemic and that the Company is reliant on the continued financial support of its parent company and fellow subsidiaries who themselves are dependent on additional third party funding being secured. As stated in note 1, these events or conditions, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Other information

The Directors are responsible for the 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. 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.

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 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 in relation to which the Companies Act 2006 requires us to report to you if, in our opinion;

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit; or
- the Directors were not entitled to take advantage of the small companies' exemptions in preparing the Directors' report and from the requirement to prepare a Strategic report.

Responsibilities of Directors

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

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

Auditor's responsibilities for the audit of the financial statements

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

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at:

<https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

Use of our report

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

BDO LLP

Anne Sayers (Senior Statutory Auditor)
For and on behalf of BDO LLP, Statutory Auditor
London, UK
15 December 2020

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

**Income Statement
for the year ended 31 December 2019**

	Notes	2019 £'000	2018 £'000
Administrative expenses		(222)	(189)
Intercompany loan waiver	2	-	1,829
Decrease/(increase) in contingent consideration provision		16	(4,721)
Impairment of intangible assets		<u>(20,672)</u>	<u>(24,474)</u>
Operating loss	2	(20,878)	(27,555)
Finance costs	4	<u>(10)</u>	<u>(2)</u>
Loss before taxation		(20,888)	(27,557)
Taxation	5	<u>-</u>	<u>-</u>
Loss for the financial year		<u>(20,888)</u>	<u>(27,557)</u>
Attributable to:			
Equity shareholders of the Company		<u>(20,888)</u>	<u>(27,557)</u>

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

**Statement of Comprehensive Income
for the year ended 31 December 2019**

	2019 £'000	2018 £'000
Loss for the financial year	(20,888)	(27,557)
Total comprehensive loss for the financial year attributable to the Company's equity shareholders	(20,888)	(27,557)

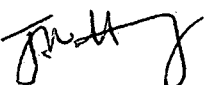
The accompanying accounting policies and notes form an integral part of these financial statements.

Balance Sheet
as at 31 December 2019

	Notes	2019 £'000	2018 £'000
Assets			
Non-current assets			
Intangible assets	6	11,108	13,346
Current assets			
Inventories	7	606	183
Trade and other receivables	8	4	337
Cash and cash equivalents		22	-
		<u>632</u>	<u>520</u>
Total assets		<u>11,740</u>	<u>13,866</u>
Equity and liabilities			
Capital and reserves attributable to the Company's equity shareholders			
Share capital	9	46,065	46,065
Accumulated deficit		<u>(60,130)</u>	<u>(39,241)</u>
Total equity		<u>(14,065)</u>	<u>6,824</u>
Current liabilities			
Trade and other payables	10	6,756	2,321
Related party borrowings	11	14,343	-
Provisions	13	-	2,500
		<u>21,100</u>	<u>4,821</u>
Non-current liabilities			
Provisions	13	<u>4,705</u>	<u>2,221</u>
Total liabilities		<u>25,805</u>	<u>7,042</u>
Total equity and liabilities		<u>11,740</u>	<u>13,866</u>

These financial statements have been prepared in accordance with the provisions applicable to companies subject to the small companies' regime.

The financial statements were approved by the Board of Directors on 15 December 2020 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 2019**

	Share capital £'000	Accumulated deficit £'000	Total £'000
Balance at 1 January 2018	30	(11,684)	(11,654)
For the financial year ended 31 December 2018			
Loss for the year	-	(27,557)	(27,557)
Total comprehensive loss	-	(27,557)	(27,557)
Issue of shares (note 9)	46,035	-	46,035
Balance at 31 December 2018	<u>46,065</u>	<u>(39,241)</u>	<u>6,824</u>
Balance at 1 January 2019	46,065	(39,241)	6,824
For the financial year ended 31 December 2019			
Loss for the year	-	(20,888)	(20,888)
Total comprehensive loss	-	(20,888)	(20,888)
Balance at 31 December 2019	<u>46,065</u>	<u>(60,130)</u>	<u>(14,064)</u>

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 2019**

1. Principal Accounting Policies

Basis of Preparation

Halo Offshore UK Limited ("the Company") 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 of Hague and London Oil PLC 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)
- the requirements of paragraph 17 of IAS 24 Related Party Disclosures
- the requirements of IFRS 7 Financial Instruments: Disclosures
- the requirements of paragraphs 91-99 of IFRS 13 Fair Value Measurement
- the requirements of paragraph 38 of IAS 1 Presentation of Financial Statements to present comparative information in respect of: paragraph 79 (a) (iv) of IAS 1
- the requirements of paragraphs 10(d), 10(f), 16, 38a, 38b, 38c, 40a-d, 111 and 134-136 of IAS 1
- the requirements of paragraphs 30 and 31 of IAS 8 Accounting Policies, Changes of Accounting Estimates and Errors
- the requirements of 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 party to the transaction is wholly owned by such a member

Going concern basis of preparation

The Company is reliant upon its parent Company, Hague and London Oil plc ("Halo Group"), and fellow subsidiaries within the wider Halo Group to provide funds to enable Halo Offshore UK Limited to continue in operational existence. The Company has received confirmation that Hague and London Oil plc and its subsidiary undertakings comprising the Halo Group will continue to provide this support for the foreseeable future, but not less than twelve months from the date of approval of these

financial statements. The Halo 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. Existing commitments for the forthcoming period include outstanding payables of £6.4m. Discussions with the parties involved are under way to address these issues within a wider Halo Group refinancing. However, the cash forecasts show that the Halo Group will require additional short-term funding.

The Halo Group has embarked on a significant cost cutting program during 2020; this initially targeted capital expenditures and operating expenditures within the portfolio but also instigated a review of the Halo Groups general and administrative costs. The Halo Group has implemented a cost reduction plan to reduce these costs by 25-50% by the end of 2020.

The Halo Group is in advanced negotiations with ENGIE to provide short-medium term financing to cover the anticipated shortfall in 2021. The Directors remain confident that the Halo Group will be able to raise the additional funding required and, accordingly, the Directors continue to adopt the going concern basis in preparing these financial statements.

However, the negative impacts of Covid-19 on global demand and oil and gas prices may make it harder for the Halo Group to secure additional financing than has been the case in the past and may therefore impact their ability to continue providing financial support to the Company. Therefore a material uncertainty exists which may cast significant doubt on the Company's ability to continue as a going concern and therefore its ability to realise its assets and discharge its liabilities in the normal course of business. These financial statements do not include the adjustments that would be necessary should the going concern basis of preparation no longer be appropriate.

Inventories

The Company holds inventories of materials.

Materials inventories are stated at cost. Costs of inventories are determined on a first-in-first-out basis. Cost comprises direct materials, and where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Net realisable value represents the estimated selling price less all estimated costs of completion and costs necessary to make the sale or is assessed in consideration of the carrying value of the CGU in the case of material inventories.

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

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.

Impairment of Financial Assets

In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model to be applied. The expected credit loss model requires the Company to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition of the financial assets.

IFRS 9 requires the Company to recognise a loss allowance for expected credit losses on trade receivables.

In particular, IFRS 9 requires the Company to measure the loss allowance for a financial instrument at an amount equal to the lifetime expected credit losses (ECL) if the credit risk on that financial instrument has increased significantly since initial recognition, or if the financial instrument is a purchased or originated credit-impaired financial asset. However, if the credit risk on a financial instrument has not increased significantly since initial recognition, the Company is required to measure the loss allowance for that financial instrument at an amount equal to 12 months ECL.

Classification and measurement of financial liabilities

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

Financial liabilities are initially measured at fair value, and, where applicable, adjusted for transaction costs unless the Group 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 and, if applicable, changes in an instrument's fair value that are reported in profit or loss 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 Intangible Assets

At each balance sheet date, the Directors review the carrying amounts of the Company's 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, which is the entity level.

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).

Contingent 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.
- "Accumulated deficit" represents the accumulated profits and losses attributable to equity shareholders.

Critical Accounting Judgments and Key Sources of Estimation Uncertainty

The preparation of financial statements in conformity with generally accepted accounting practice requires management to make estimates and judgments 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 judgments 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.

Judgments

Exploration and Evaluation Costs

The Company's accounting policy leads to the development of 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.

Estimates

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

	2019 £'000	2018 £'000
Operating loss is stated after charging/(crediting):		
Fees payable to the Company's auditors for the audit of the annual financial statements	9	14
Fees payable to the Company's auditors and its associates for other services to the Company:		
Tax compliance services	-	2
Impairment of intangible assets	20,672	22,645
Intercompany loan waiver	-	1,829
Fair value movement relating to contingent consideration provision	(16)	4,721

The intercompany loan waiver in 2018 relates to the write-off of intercompany balances prior to the acquisition of Third Energy Offshore Ltd in December 2018.

3. Directors and Employees

Key management consists of all the Directors. No charge for Directors' remuneration has been recognised in these financial statements.

4. Finance costs

	2019 £'000	2018 £'000
Other interest payable	10	2

5. Taxation

Reconciliation of the effective tax charge

	2019 £'000	2018 £'000
Loss before taxation	(20,888)	(27,557)
Loss before tax multiplied by standard rate of corporation tax in the UK 19.0% (2018: 19.0%)	(3,969)	(5,236)
Tax effects of:		
Deferred tax losses not recognised within the year	3,969	5,236
Total Tax expense	-	-

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 2019 was, therefore, 40% (2018: 40%).

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 2019 of £60.7m (2018: £40.4m) 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 31 December 2019 (2018: £8.0m) 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 £52.6m (2018: £34.2m) 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
Cost	
At 1 January 2018	36,602
Additions	<u>4,081</u>
At 31 December 2018	40,683
Additions	<u>18,434</u>
At 31 December 2019	<u>59,117</u>
Amortisation and impairment	
At 1 January 2018	2,863
Impairment	<u>24,474</u>
At 31 December 2018	27,337
Impairment	<u>20,672</u>
At 31 December 2019	<u>48,009</u>
Net book value	
At 31 December 2019	<u>11,108</u>
At 31 December 2018	<u>13,346</u>
At 1 January 2018	<u>33,739</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.

The Andromeda North well was drilled in late 2019. Although the well encountered better reservoir quality than expected, and the volumes were within the predicted range, they were at the lower end of expectations, and the decision was taken to plug and abandon the well. After independent assessments of the carrying value of the intangible assets held in respect of the Andromeda and Pegasus licences, it was determined that an impairment of £20.7m was required resulting in a carrying value for the Pegasus project of £11.1m remaining.

7. Inventories

	2019 £'000	2018 £'000
Materials inventory	606	183

8. Trade and Other Receivables

	2019 £'000	2018 £'000
Prepayments	4	337

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

No expected credit losses exist in relation to the Company's receivables as at 31 December 2019 (2018: £nil).

9. Share Capital

	2019 Number	2019 £'000	2018 Number	2018 £'000
Allotted, issued and fully paid ordinary shares				
At 1 January	46,065,225	46,065	30,000	30
Issued	-	-	46,035,225	46,035
At 31 December	46,065,225	46,065	46,065,225	46,065

During 2018, £46.0m 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

	2019 £'000	2018 £'000
Trade payables	6,377	1,958
Accruals	379	363
	<u>6,756</u>	<u>2,321</u>

During 2018, £46.0m 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.

11. Related party borrowings

	2019 £'000	2018 £'000
Loan from Halo BV	14,303	-
Loan from Halo plc	41	-
	<u>14,343</u>	<u>-</u>

The intercompany loans with other group companies are repayable on demand and interest is charged at a rate of 1% above the London Interbank Offered Rate (LIBOR).

12. Financial Commitments

At 31 December 2019 the Company had capital commitments relating to Pegasus/Andromeda of £5.0m (2018: £14.2m).

These amounts are contained within approved joint venture work programmes for 2020. Due to the impact of Covid-19, work programmes are being reviewed and some reductions are anticipated.

13. Provisions

	Contingent consideration provision £'000
As at 1 January 2018	-
Recognition of provision	4,721
At 31 December 2018	4,721
Changes in fair value of provision	(16)
At 31 December 2019	4,705
2019	
Current	-
Non-Current	4,705
	4,705
2018	
Current	2,500
Non-Current	2,221
	4,721

Contingent consideration recognised during 2018 is £4,721,038 which relates to two future payments to be made by the Company in relation to its Pegasus interests of £2,500,000 each. These payments are conditional on two trigger events:

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

At 31 December 2019, it was estimated by Management in agreement with the operator, Spirit Energy, that FID would take place by the end of 2020. The second payment, relating to delivery of first gas, has been discounted at 3% at the reporting date due to the fact that the trigger event was not expected until 2024, as indicated by the operator and agreed by Management. This was the conclusion anticipated at the balance sheet date and no adjustments in hindsight have been applied.

14. 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, as a result of a new discovery in the Pegasus licence area, is considered remote.

The Directors are not aware of any other contingent liabilities that require disclosure as at 31 December 2019 (2018: none).

15. Ultimate Controlling Party

As at 31 December 2019, the immediate and ultimate controlling party was Hague and London Oil PLC.

16. Events after the Balance Sheet Date

Andromeda and Pegasus licences

On 2 July 2020, the Company received formal notification from Spirit Energy Resources Limited ("Spirit") that they had decided to exercise their right to acquire Halo's 45% interest in Licences 2128 (containing the Andromeda interests), and Licences P1724 and P1727 (comprising the Pegasus interests), following the serving of a default notice and a 60 day period having passed without remedy of the default. The Company has accepted this notification and will work with Spirit and the OGA towards a smooth transfer of the licences.

The financial impact of this event in 2020 will be an impairment charge for the associated intangible asset values of £14.6m, an inventory write-off of £0.6m and a credit for the write-off of provisions and liabilities of £13.3m.

To date, FID has not taken place for the Pegasus project and further delays are anticipated in the current oil price environment.

Award of Schooner Field (Licence P2578)

As announced in December 2020, HALO was awarded the Schooner field licence which is located in the Southern North Sea of the UKCS, in license block 44/26a ("Schooner" or the "Block"). Schooner was "shut-in" despite material natural gas resources remaining due to the abandonments of "hub" facilities and the pipeline to a market in the United Kingdom ("UK"). However the Block, awarded to HALO (100%) as license P2578, is now focused on re-activation of Schooner and nearby exploitation to be re-directed to the Western Gas Transmission system and the Den Helder processing facilities ("WGT") in the Netherlands. HALO currently owns 8.88% of WGT and, with partners, continues to examine opportunities in the UK near the border with the Netherlands.

Covid-19

Since 31 December 2019 the rapidly evolving COVID-19 crisis has caused increasing restrictions of all forms of travel and many normal business and commercial activities globally. This has impacted markets generally with oil and gas commodity markets particularly disrupted.

The Company's priority has been to continue to ensure the health and safety of its employees and technical staff. Plans have been implemented and active measures have been taken to mitigate risk, such as limiting one-to-one contact and remote-working. The Company is also in frequent contact with its Joint Venture partners to assess any potential impact on operations. We continue to follow the most up-to-date Government advice and engage with the regulatory bodies and stakeholders.