COMPANY REGISTRATION NUMBER: 08808553

HORSE HILL DEVELOPMENTS LTD
REPORT AND FINANCIAL STATEMENTS

Year ended 30 September 2019

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Year ended 30 September 2019

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Directors

Stephen Paul Sanderson
George Frangeskides
Kiran Morzaria (appointed 23 November 2018)
Grant Michael Roberts (resigned 28 February 2019)

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 2019.

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 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 £1,155,205 (9 months to 30 September 2018: £512,667). The directors do not recommend payment of a dividend (2018: £0).

Following testing of the Horse Hill-1 well (HH-1) at the company's flagship Horse Hill oil field near Gatwick Airport in the summer of 2018, the Portland oil discovery was declared to be commercially viable in October 2018. Test production from the Portland structure continued until July 2019 after which the company began testing the Kimmeridge Limestone until October 2019. As reservoir pressure data showed that the Kimmeridge acts as one single naturally fractured reservoir, the flow was commingled from both zones.

In September 2019 Surrey County Council's ("SCC") Planning and Regulatory Committee granted full planning consent for long-term oil production at the Horse Hill oil field. The planning consent gives permission to produce oil over a period of 25 years at up to 3,500 barrels of oil per day from a total of six wells within the Portland and Kimmeridge oil pools, including the existing HH-1 and HH-2z wells. Consent also includes permission to drill one water reinjection well to help maximise oil recovery. All existing and future wells will be drilled from within the existing 20 x 15 metre concrete pad. No further drilling sites beyond Horse Hill are required.

The Horse Hill-2z (HH-2z) well was drilled and completed between September and November 2019. During well clean-up, formation water was produced to surface. A water-shut-off intervention was then completed. HH-2z well testing resumed via a combination of flow periods, with downhole pumping via a bespoke electric submersible pump, and pressure build-ups (PBUs) to assess oil volumes connected to the well.

Following initial high oil rates, HH-2z oil rates declined with continuing formation water production. The well is currently shut-in for a long-term PBU test. A number of options are being reviewed for the future use of HH-2z, including stimulation to return it into long-term production, sidetracking the well to a different subsurface location and possibly converting it into a future water re-injection well to implement pressure support and further reduce future operating costs (as foreseen in the Horse Hill FDP). The Company has also sought an extension to the current test permission in order to ensure that sufficient data is available to enable the correct decisions to be made.

In March 2020, the Oil and Gas Authority (OGA) awarded consent to the Field Development Plan (FDP) and permission to produce.

Post-period, the Company also plans a significant intervention in HH-1 specifically designed to further improve flow into the wellbore. Together with a full reperforation of the entire Portland section using a different type of perforating gun than prior operations, a new, simpler production tubing completion will be installed. The new completion will permit the downhole pump to be installed below the Portland interval to significantly improve pump efficiency.

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:

....
Kiran Morzaria

Director

18 September 2020

HORSE HILL DEVELOPMENTS LTD
DIRECTORS REPORT

The directors present their report and the financial statements for the 12 months ended 30 September 2019.

Business review and future developments

A review of the business and future developments are outlined in the Strategic Report.

Principal activity and business review

The principal activity of the Company is exploring for, appraising and developing oil and gas assets.

Results and dividends

The loss for the year after taxation is £1,155,205 (9 months to 30 September 2018: £512,667). The directors do not recommend payment of a dividend (2018: £nil).

The company has received assurance from its ultimate parent company that it will continue to receive financial support for a period of at least 12 months from the signing of the accounts in order to meet its obligations as they fall due.

Principal risks and uncertainties

Information of the principal risks and uncertainties facing the company is included in the Principal Risks and Uncertainties section of the Strategic Report.

Financial risk management objectives and policies

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. The Board reviews and agrees policies for managing this risk which are summarised in the strategic report.

Going Concern

The Directors note the substantial losses that the company has made for the year ended 30 September 2019. The Directors have prepared cash flow forecasts for the period ending 30 September 2021, which take account of the current cost and operational structure of the company.

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. In order to continue the company's work programme, it relies on the funding from its shareholders, including its majority parent company UK Oil and Gas plc ("UKOG") for its working capital. The company has received signed confirmation from UKOG that it intends to provide funding based on the company and its shareholders agreeing on a budget for the coming 12 months from the date of approval of these financial statements.

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.

Suppliers' payment policy

The company's policy is to agree terms and conditions with suppliers in advance; payment is then made in accordance with the agreement provided the supplier has met the terms and conditions. Suppliers are typically paid within 30 days of issue of invoice.

Events after the Reporting Period

Events after the Reporting Period are outlined in Note 15 to the Financial Statements.

Employees
Only the directors of the company are direct employees

Directors of the company
The directors who held office during the year were:

George Frangeskides
Stephen Paul Sanderson
Kiran Morzaria (appointed 23 November 2018)
Grant Michael Roberts (resigned 28 February 2019)

Charitable and political donations
The company made no political or charitable donations during the year (2018: £nil).

Independent Auditor
The auditors, Chapman Davis LLP, have indicated their willingness to continue in office and a resolution concerning their re-appointment will be proposed at the Annual General Meeting.

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

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 auditor are aware of that information.

Signed on behalf of the Board by:

....

Kiran Morzaria
Director

18 September 2020

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 2019 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 a summary of significant accounting policies.

The financial reporting framework that has been applied in the preparation of the company financial statements is applicable law and UK Generally Accepted Accounting Standards (UK GAAP).

In our opinion:

- the financial statements give a true and fair view of the state of the Company's affairs as at 30 September 2019 and of the Company's profits for the year then ended;
- the Company financial statements have been properly prepared in accordance with UK GAAP;
- the financial statements 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 as applied to listed entities, 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

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

OTHER INFORMATION

The Directors are responsible for the other information. The other information comprises the information included in the annual report, 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.

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) or ISA IAASB 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: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

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

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.

Rowan J. Palmer
(Senior Statutory Auditor)
For and on behalf of Chapman Davis LLP, Statutory Auditor
London
Chapman Davis LLP is a limited liability partnership registered in England and Wales (with registered number OC306037).
18 September 2020

HORSE HILL DEVELOPMENTS LTD
STATEMENT OF COMPREHENSIVE INCOME
Year ended 30 September 2019

	Note	Year ended 30 September 2019 £	9 Months to 30 September 2018 £
Turnover		-	-
Cost of Sales		-	-
Gross profit / (loss)		-	-
Administrative expenses		(241,925)	(257,854)
Operating (loss)	4	(241,925)	(257,854)
Interest expense	5	(913,280)	(254,813)
(Loss) before taxation		(1,155,205)	(512,667)
Taxation	7	-	-
(Loss) for the year		(1,155,205)	(512,667)
Other comprehensive income		-	-
Total comprehensive (loss)		(1,155,205)	(512,667)

The company's results are derived from continuing operation

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

HORSE HILL DEVELOPMENTS LTD
STATEMENT OF FINANCIAL POSITION
30 September 2019

	Note	30 September 2019	30 September 2018
		£	£
Non-current assets			
Exploration and evaluation assets	8	16,417,933	13,521,890
Decommissioning asset	14	126,968	148,170
Property, Plant & Equipment	9	11,903	-
		16,556,012	13,670,060
Current assets			
Trade & other receivables	10	666,323	459,630
Cash and cash equivalents		667,809	3,100,043
		1,334,132	3,559,673
Creditors: amounts falling due within one year	11	(1,928,214)	(2,173,048)
Net current assets (liabilities)		(594,082)	1,386,625
Total assets less current liabilities		15,961,930	15,056,685
Creditors: amounts falling due after more than one year	12	(14,636,896)	(12,572,617)
Provisions for liabilities	14	(144,341)	(148,170)
Net assets		1,180,693	2,335,898
Equity			
Ordinary shares	13	1,000	1,000
Share premium		3,599,400	3,599,400
Retained earnings		(2,419,707)	(1,264,502)
Total Shareholders' funds		1,180,693	2,335,898

The notes on pages 13 to 23 form part of these financial statements. These financial statements were approved by the Board on xx September 2020, and signed on its behalf by:

....
Kiran Morzaria
Director

....
Stephen Sanderson
Director

Registered number: 08808553

HORSE HILL DEVELOPMENTS LTD
STATEMENT OF CHANGES IN EQUITY

	Share capital	Share premium	Retained earnings	Total
	£	£	£	£
At 1 January 2018	1,000	3,599,400	(751,835)	2,848,565
Loss for the period	-	-	(512,667)	(512,667)
Other comprehensive income	-	-	-	-
Total comprehensive income	-	-	(512,667)	(512,667)
At 30 September 2018	1,000	3,599,400	(1,264,502)	2,335,898
At 1 October 2018	1,000	3,599,400	(1,264,502)	2,335,898
Loss for the year	-	-	(1,155,205)	(1,155,205)
Other comprehensive income			-	-
Total comprehensive losses	-	-	(1,155,205)	(1,155,205)
At 30 September 2019	1,000	3,599,400	(2,419,707)	1,180,693

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

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 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 12 months ended 30 September 2019 were authorised for issue by the board of directors on 18 September 2020 and the balance sheet was signed on the board's behalf by Kiran Morzaria and Stephen Sanderson.

These financial statements were prepared in accordance with Financial Reporting Standard 101 'Reduced Disclosure Framework' ('FRS 101') and in accordance with applicable accounting standards.

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 UK GAAP 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 15.

The accounting policies which follow set out those policies which apply in preparing the financial statements for the year ended 30 September 2019.

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;

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 standards, amendments and IFRIC interpretations adopted by the Company

IFRS15 Revenue from Contracts with Customers and IFRS 9 Financial Instruments are effective for annual reporting periods beginning on or after 1 January 2018. The adoption of these has not made a material impact on the presentation of results for the company.

The following standards, amendments and interpretations became effective for accounting periods beginning on or after 1 January 2019. These have not been early adopted by the company, however assessment as to their impact is ongoing.

IFRS 16 *Leases*
IFRIC Interpretation 23 *Uncertainty over Income Tax Treatment*
Amendments to IFRS 9: *Prepayment Features with Negative Compensation*
Amendments to IAS 19: *Plan Amendment, Curtailment or Settlement*
Annual IFRS Improvement Process:
IFRS 11 Joint Arrangements – *Previously held interests in a joint operation*
IAS 12 Income Taxes – *Income tax consequences of payments on financial instruments classified as equity*
IAS 23 Borrowing Costs – *Borrowing costs eligible for capitalisation*

Going concern

The Directors note the substantial losses that the Company has made for the year ended 30 September 2019. The Directors have prepared cash flow forecasts for the period ending 30 September 2021, which take account of the current cost and operational structure of the Company.

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. In order to continue the company's work programme, it relies on the funding from its shareholders, including its parent company UK Oil and Gas plc ("UKOG") for its working capital. The company has received signed confirmation from UKOG that it intends to provide funding based on the company and its shareholders agreeing a budget for the coming 12 months from the date of approval of these financial statements.

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 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.

3 Accounting policies *(continued)*

Revenue from the production of oil, 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.

Exploration & Evaluation assets

Oil and natural gas exploration, evaluation and development expenditure is accounted for using the successful efforts method of accounting.

(i) Pre-licence costs

Pre-licence costs are expensed in the period in which they are incurred.

(ii) Licence and property acquisition costs

Exploration licence and leasehold 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.

Licence and property acquisition costs are reviewed at each reporting date to confirm that there is no indication that the carrying amount exceeds the recoverable amount. This review includes confirming that exploration drilling is still under way or firmly planned, or that it has been determined, or work is under way to determine that the discovery is economically viable based on a range of technical and commercial considerations and that sufficient progress is being made on establishing development plans and timing.

If no future activity is planned or the licence has been relinquished or has expired, the carrying value of the licence and property acquisition costs are written off through the statement of profit or loss and other comprehensive income. Upon recognition of proved reserves and internal approval for development, the relevant expenditure is transferred to oil and gas properties.

(iii) Exploration and evaluation costs

Exploration and evaluation activity involves the search for hydrocarbon resources, the determination of technical feasibility and the assessment of commercial viability of an identified resource.

Once the legal right to explore has been acquired, 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 fuel used, rig costs and payments made to contractors.

If no potentially commercial hydrocarbons are discovered, the exploration asset is written off through the statement of profit or loss and other comprehensive income as a dry hole. If extractable hydrocarbons are found and, subject to further appraisal activity (e.g., the drilling of additional wells), it is probable that they can be commercially developed, the costs continue to be carried as an intangible asset while sufficient/continued progress is made in assessing the commerciality of the hydrocarbons. Costs directly associated with appraisal activity undertaken to determine the size, characteristics and commercial potential of a reservoir following the initial discovery of hydrocarbons, including the costs of appraisal wells where hydrocarbons were not found, are initially capitalised as an intangible asset.

3 Accounting policies *(continued)*

All such capitalised costs are subject to technical, commercial and management review, as well as review for indicators of impairment at least once a year. This is to confirm the continued intent to develop or otherwise extract value from the discovery. When this is no longer the case, the costs are written off through the statement of profit or loss and other comprehensive income.

When proved reserves *of oil and natural gas are identified and development* is sanctioned by management, the relevant capitalised expenditure is first assessed for impairment and (if required) any impairment loss is recognised, then the remaining balance is transferred to oil and gas properties. Other than licence costs, no amortisation is charged during the exploration and evaluation phase.

Development costs

Expenditure on the construction, installation or completion of infrastructure facilities such as platforms, pipelines and the drilling of development wells, including unsuccessful development or delineation wells, is capitalised within oil and gas properties.

Oil and gas properties and other property, plant and equipment

(i) Initial recognition

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 a finance lease is also included within property, plant and equipment.

When a development project moves into the production stage, the capitalisation of certain construction/development costs ceases, and costs are either regarded as part of the cost of inventory or expensed, except for costs which qualify for capitalisation relating to oil and gas property asset additions, improvements or new developments.

(ii) Depreciation/amortisation

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, except in the case of assets whose useful life is shorter than the lifetime of the field, *in which case the straight-line method is applied. Rights and concessions are depleted on the* unit-of-production basis over the total proved developed and undeveloped reserves of the relevant area. 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.

Other property, plant and equipment 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, and major inspection costs are amortised over three to five years, which represents the estimated period before the next planned major inspection.

Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of profit or loss and other comprehensive income when the asset is derecognised. The asset's residual values, useful lives and methods of depreciation/amortisation are reviewed at each reporting period and adjusted prospectively, if appropriate.

3 Accounting policies *(continued)*

(iii) Major maintenance, inspection and repairs

Expenditure on major maintenance refits, inspections or repairs comprises the cost of replacement assets or parts of assets, inspection costs and overhaul costs. Where an asset, or part of an asset that was separately depreciated and is now written off is replaced and it is probable that future economic benefits associated with the item will flow to the Group, the expenditure is capitalised.

Where part of the asset replaced was not separately considered as a component and therefore not depreciated separately, the replacement value is used to estimate the carrying amount of the replaced asset(s) and is immediately written off. Inspection costs associated with major maintenance programmes are capitalised and amortised over the period to the next inspection. All other day-to-day repairs and maintenance costs are expensed as incurred

Taxation
Current tax is the tax currently payable based on taxable profit for the year.

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.

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. Current and 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 income statement, 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.

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 income statement.

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.

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.

3 Accounting policies *(continued)*

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.

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.

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 income statement. A financial liability is derecognised only when the obligation is extinguished, that is, when the obligation is discharged or cancelled or expires.

Impairment of assets

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

Cash and Cash Equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, together with other short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value.

Foreign Currencies

Transactions in foreign 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. 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 income statement.

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

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, assets and liabilities, and the accompanying disclosures, and the disclosure of contingent liabilities at the date of the 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.

3 Accounting policies *(continued)*

Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

In particular, the company has identified the following areas where significant judgements, estimates and assumptions are required. 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.
Changes in estimates are accounted for prospectively.

(i) Judgements
In the process of applying the company's accounting policies, management has made the following judgements, which have the most significant effect on the amounts recognised in the financial statements:

Contingencies
Contingent liabilities may arise from the ordinary course of business in relation to claims against the company, 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.

(ii) 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 company 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 company. Such changes are reflected in the assumptions when they occur.

Exploration and evaluation expenditures
The application of the company's accounting policy for exploration and evaluation expenditure requires judgement to determine whether future economic benefits are likely, from future either exploitation or sale, or whether activities have not reached a stage which permits a reasonable assessment of the existence of reserves. The determination of reserves and resources is itself an estimation process that involves varying degrees of uncertainty depending on how the resources are classified. These estimates directly impact when the company defers exploration and evaluation expenditure. The deferral policy requires management to make certain estimates and assumptions about future events and circumstances, in particular, whether an economically viable extraction operation can be established. Any such estimates and assumptions may change as new information becomes available. If, after expenditure is capitalised, information becomes available suggesting that the recovery of the expenditure is unlikely, the relevant capitalised amount is written off in the statement of profit or loss and other comprehensive income in the period when the new information becomes available.

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.

3 Accounting policies *(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.

4 Operating loss	**Year to 2019**	**9 months to 2018**
	£	**£**
Arrived at after charging / (crediting):		
Licence fee amortisation	12,791	73,938
Foreign exchange (gains) / losses	16,190	474
Auditors' remuneration	9,000	8,850
Depreciation	5,241	-

5 Interest Expense	**2019**	**2018**
	£	**£**
Interest on loans from shareholders	913,280	254,813

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

6 Directors' remuneration	**2019**	**2018**
	£	**£**
Wages & Salaries		
G Roberts	10,500	31,500
G Frangeskides	12,000	9,000
	22,500	40,500

George Frangeskides provides his services as a Non-Executive Director to the Company through Alba Mineral Resources plc ("Alba"), who are a shareholder of the company and so a related party. George Frangeskides is a director of Alba Mineral Resources plc. Alba have not issued any invoices and so £12,000 (2018: £9,000) was accrued in the period

7 Taxation

	2019	2018
	£	£
(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% (2018 – 19%). *The differences are reconciled below:*

	2019	2018
	£	£
(Loss) before tax	(1,155,205)	(512,667)
Corporation tax at standard rate	(219,489)	(97,407)
Pre-trading expenditure carried forward	42,540	34,944
Non-trade loan expenditure carried forward	173,523	48,414
Non-deductible costs	3,426	14,049
Total tax charge / (credit)	-	-

8 Exploration and evaluation assets

	£
Cost	
At 1 January 2018	10,249,212
Additions	3,320,372
Offset by income from sales of oil generated by long term testing	(47,694)
At 30 September 2018	13,521,890
Additions	5,306,988
Offset by income from oil sales generated through long term testing	(2,410,945)
At 30 September 2019	16,417,933

9 Property, Plant & Equipment	£
Cost	
As at 1 October2018	-
Additions	12,101
As at 30 September 2019	12,101
Depreciation & impairment	
As at 1 October 2018	-
Depreciation charge for the year	(1,008)
As at 30 September 2019	(1,008)
Carrying value	
As at 30 September 2019	**11,094**

10 Trade & other receivables	2019	2018
	£	£
Trade debtors	289,482	6,905
Accrued Income	134,081	-
Related Party Debtors	-	532
Other debtors and prepayments	242,670	452,193
	666,323	459,630

11 Creditors: amounts falling due within one year	2019	2018
	£	£
Trade creditors	550,960	1,321,906
Accruals and other payables	1,341,559	822,897
Amounts payable to group companies	35,695	28,245
	1,928,214	2,173,048

At the year end, included within "Accruals and other payables" is a total of £33,000 accrued for Directors fees due to Alba Mineral Resources Plc, a related party.

12 Borrowings	2019	2018
	£	£
The company had loan balances outstanding to shareholders (related parties) as detailed below.		
UK Oil & Gas Plc	11,664,123	9,038,705
Doriemus Plc	546,372	1,272,883
Alba Mineral Resources Plc	2,426,401	2,261,029
	14,636,896	12,572,617
Interest expense on shareholder loans included in Income Statement	913,280	254,813

13 Share Capital

	2019		2018	
Allotted, called up and fully paid shares	**Number**	**£**	**Number**	**£**
Ordinary shares of £1 each	1,000	1,000	1,000	1,000

14 Decommissioning

	2019
	£
Provision at 1 October 2018	(148,170)
Adjustments due to change in estimates	16,951
Unwind of discount in the year	(13,122)
Provision at 30 September 2019	144,341
Asset at 1 October 2018	148,170
Adjustments due to change in estimates	(16,951)
Depreciation in the year	(4,233)
Asset at 30 September 2019	126,986

A decommissioning provision, and related decommissioning asset, was recognised for the first time in 2018.

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.

15 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.

16 Commitments & Contingent Liabilities

As at 30 September 2019, 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 2019.