

COMPANY REGISTRATION NUMBER: 07055133

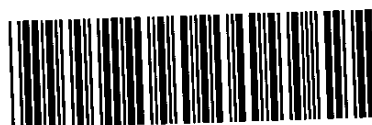
UKOG (234) LIMITED

(previously named Kimmeridge Oil & Gas Limited)

REPORT AND FINANCIAL STATEMENTS

31 December 2017

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**UKOG (234) LIMITED
REPORT AND FINANCIAL STATEMENTS
YEAR ENDED 31 December 2017**

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**UKOG (234) LIMITED
REPORT AND FINANCIAL STATEMENTS
COMPANY INFORMATION**

Director

Stephen Sanderson
Dr James Lorsong

Registered office

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

Registered number

07055133

UKOG (234) LIMITED STRATEGIC REPORT

The directors present their strategic report for the year ended 31 December 2017.

Principal activities

The principal activity of UKOG (234) Limited ("the company") is the investment in onshore oil and gas development and production opportunities in the United Kingdom.

The company is a member of the UK Oil and Gas Investments 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.

Business review

The loss for the year after taxation is £2,766,236 (2016: loss of £76,349). The directors do not recommend payment of a dividend (2016: \$nil).

The company currently has 100% interest in the PEDL234 licence in the South of England.

The Broadford Bridge-1 and 1z ("BB-1/1z") oil discovery, located in the Weald's largest single licence, the 300 km² PEDL234, delivered on its technical objectives, namely: "proof of concept" for the existence of a continuous oil deposit within the Kimmeridge section, the determination of the deposit's lateral extent and supporting evidence for a regionally extensive natural fracture system within Kimmeridge Limestones. Importantly, the fracture system was shown to deliver oil to surface without the need for reservoir stimulation utilising massive hydraulic fracturing ("fracking").

The BB-1/1z exploration well, for which operations ceased in March 2018, was a bold 27 km step-out from HH-1, designed to provide proof of our geological concept that oil within the KL, as demonstrated at the Company's Horse Hill-1 discovery ("HH-1"), was part of a regionally extensive continuous oil deposit. Since the two prior Weald Basin wells which tested and recovered Kimmeridge oil to surface, HH-1 and Balcombe-1, were drilled within well-defined mapped conventional structural features, it was necessary to demonstrate that the BB-1/1z location, without any discernible conventional hydrocarbon trapping configuration (i.e. no structural or stratigraphic closure) contained moveable oil within the Kimmeridge.

Consequently, the multiple live, mobile oil shows seen in cuttings and drilling fluids, light oil seen in open fractures in cores, the recovery of oil and gas to surface from KL1 to KL4 flow tests, together with the light oil flowed continuously to surface from the KL5 test zone, presents further compelling evidence that the Upper Jurassic Kimmeridge of the central Weald Basin contains an extensive continuous oil accumulation. We believe that the data provided from BB-1/1z and analysed to date provides us proof of geological concept.

These live, mobile oil occurrences, together with corresponding rock and electric log data likely demonstrate a KL oil deposit of up to 1400 ft vertical extent exists at BB-1z. Geochemical analyses further support this proof of concept, as all oil samples from both BB-1z and HH-1 analysed to date are determined by Geomark Research to come from the same Upper Jurassic shale source, i.e. the oil lies within or immediately adjacent to the Upper Jurassic rocks where it was generated, one of the fundamental characteristics of a continuous oil accumulation.

The flow test campaign also contributed significantly to our understanding of the Kimmeridge play. Flow test inflows and pressure data, together with the specialist analysis of formation image log and core fractures, also demonstrated that the Kimmeridge contains both a local and regionally developed natural-fracture system, key to the future commercial viability of the KL deposit. These fractures are present in both limestones and shales.

Significantly, prior to the testing campaign these fracture-related data showed the key fracture sets to be open, i.e. likely able to transmit fluids under reservoir conditions.

UKOG (234) LIMITED
STRATEGIC REPORT (continued)

Consequently, neither the drilling fluid nor drilling and coring methodology appears to have “damaged” the reservoir (i.e. blocked or plugged fractures surrounding the well bore). As to whether these fractures remained fully or partly open during the necessary pressure draw-downs following acidisation used during testing is currently under investigation.

The ability of these fractures to deliver hydrocarbons to surface at BB-1z without stimulation (i.e. without “fracking”) was demonstrated by both the KL5 test and by high initial instantaneous flow-back rates from the KL4 and KL3 test zones of 466 and 719 barrels of fluid per day respectively.

The finding of near identical reservoir geology and geochemistry between HH-1 and BB-1/1z also provided a valuable understanding that the Kimmeridge oil deposit stretches around 30 km across the Weald basin from the north-east at Horse Hill to the southern edge of our 100% PEDL234 Licence, with BB-1/1z likely lying on the deposit’s southernmost boundary.

It is worth noting that since BB-1 lies in the extreme south of PEDL234, the well also demonstrates that most of the licence lies within the deposit’s most prospective sweet spot. It is in this area where the Upper Jurassic shales are thickest, most deeply buried and have likely generated the most significant volumes of in-situ hydrocarbons.

Consequently, in the light of significant positive technical learnings and understanding of the wider KL deposit gained from BB-1/1z, the Company has accelerated its PEDL 234 drilling plans. We have now selected two further drilling sites in the central area of the licence, the first of which, subject to regulatory approval, should commence drilling in 2019. The required necessary planning application and Environment Agency (“EA”) application are currently in preparation and are scheduled to be submitted by the summer.

Whilst the KL flow rates observed to date are likely sub-commercial, we are encouraged by the multiple occurrences of mobile oil observed in the well and their correlation with good calculated oil saturations in electric logs and core analyses. Consequently we are currently exploring new methods and technologies that might enable us to achieve higher sustainable oil rates and commercial viability from the 1400 vertical feet of oil-saturated KL reservoir rock interpreted at BB-1z.

With this in mind, serious consideration is being given to a possible future short sidetrack, BB-1y. The sidetrack’s objective would include a selective re-test of the main KL units, likely utilising an alternate completion methodology, new completion fluids, the possible use of small-bore radial drilling and other reservoir stimulation techniques. Any future work at BB-1/1z would likely take place after a successful trial of such alternate methods and technologies in the next planned PEDL234 exploration well. Such future operations will require further in-depth study of the vast amount of data collected during drilling, coring, electric logging and testing before any conclusions can be finalised.

In May 2018, the Oil and Gas Authority (“OGA”) extended the licence term of its 100% owned PEDL234 licence (“Licence”) from 30 June 2018 until 31 December 2023. The Licence will now be converted to the 14th Licence Round Master Clauses Agreement which permits a Retention Area (“RA”) covering the entirety of the 300 km2 Licence area to be created.

The agreed RA work programme comprises:

- Drilling of two further Kimmeridge Limestone (“KL”) step-out exploration wells in two new sites in the central area of the Licence. One well will also appraise the potentially significant Godley Bridge-1 Portland gas discovery
- In the event of a commercial discovery, drill and flow test an appraisal well or sidetrack. Note that a sidetrack to the BB-1 discovery would fulfil this commitment
- Following completion of the drilling programme and in the event of a commercial discovery, acquire 50 km of 2D seismic data and submit a Field Development Plan to OGA

UKOG (234) LIMITED
STRATEGIC REPORT (continued)

In September 2018, West Sussex County Council's Planning Committee approved, by a significant majority vote, an 18-month extension to the existing planning permission covering its 100% owned and operated BB-1 and 1z Kimmeridge oil discovery, located in licence PEDL234. The planning extension, which will expire in March 2020, will provide the Company with the necessary time to complete its plans to re-enter the BB-1 well to drill and flow test a new Kimmeridge sidetrack, BB-1y.

Drilling of the BB-1y sidetrack well is planned to directly follow the drilling of the new 2019 Kimmeridge exploratory and overlying Portland gas appraisal well in the basin-centre area of PEDL234, a planning application for which is expected to be submitted this Autumn. The drilling of the sidetrack and new PEDL234 well are subject to the grant of necessary regulatory consents.

Principal risks and uncertainties of the company

From the perspective of the company, the principal risks and uncertainties are so integrated with the principal risks of the Group that they are not managed separately. Accordingly, the principal risks and uncertainties of the UK Oil and Gas Investments Group, which include those of the company, are discussed below.

The principal risks and uncertainties facing the Group 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 Group's principal financial instruments are available for sale assets, trade receivables, trade payables and cash at bank, and borrowings. The main purpose of these financial instruments is to fund the Group's operations. It is, and has been throughout the period under review, the Group's policy that no trading in financial instruments shall be undertaken. The main risk arising from the Group's financial instruments is liquidity risk.

Liquidity risk is the risk that the Group will encounter difficulty in meeting its financial obligations as they fall due. The UK Oil and Gas Investments Group's objective is to maintain a balance between continuity of funding and flexibility through the use of equity and its cash resources.

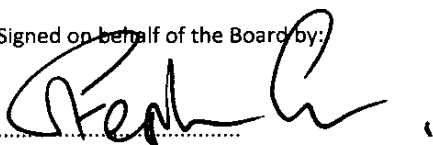
Exploration risk is the risk that the Group's investee companies fail to locate and explore hydrocarbon bearing prospects that have the potential to deliver commercially, e.g. key wells are dry or less successful than anticipated. This is managed through the analysis of available technical information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

Permitting risk is the risk that the Group 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 Group, the Board has not identified any performance indicators as key.

Signed on behalf of the Board by:



.....
Stephen Sanderson

Director

28 September 2018

**UKOG (234) LIMITED
DIRECTORS REPORT**

The director presents his report and the financial statements for the year ended 31 December 2017.

Results and dividends

The loss for the year after taxation is £2,766,236 (2016: loss of £76,349). The directors do not recommend payment of a dividend (2016: \$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.

Directors of the company

The directors who held office during the year were:

Stephen Sanderson

Dr James Lorsong

Daniel Maling (resigned 30 April 2017)

Charitable and political donations

The company made no political or charitable donations during the year (2016: £nil).

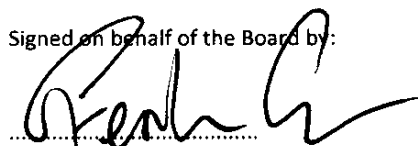
Audit exemption

For the year ended 31 December 2017 the company was entitled to exemption from audit under section 479A of the Companies Act 2006 relating to subsidiary companies.

Directors responsibilities:

- The members have not required the company to obtain an audit of its accounts for the year in question in accordance with section 476
- The directors acknowledge their responsibilities for complying with the requirements of the Act with respect to accounting records and the preparation of the accounts

Signed on behalf of the Board by:



.....
Stephen Sanderson
Director

28 September 2018

UKOG (234) LIMITED
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 directors have 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 he is 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.

UKOG (234) LIMITED
STATEMENT OF PROFIT AND LOSS AND OTHER COMPREHENSIVE INCOME
YEAR ENDED 31 December 2017

	Note	2017 £	2016 £
Turnover		-	-
Cost of Sales		-	-
Gross profit / (loss)		-	-
Administrative expenses		(143,748)	(76,349)
Operating profit / (loss)	4	(143,748)	(76,349)
Exploration write off	8	(2,622,487)	-
Interest payable		-	-
Profit / (loss) before taxation		(2,766,236)	(76,349)
Taxation	6	-	-
Profit / (loss) for the year		(2,766,236)	(76,349)
Other comprehensive income		-	-
Total comprehensive income / (loss)		(2,766,236)	(76,349)

The company's results are derived from continuing operations.

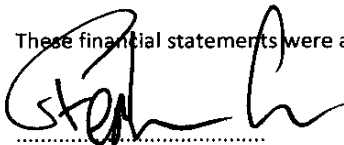
The notes on page 10 to 22 form part of these financial statements

UKOG (234) LIMITED
BALANCE SHEET
31 December 2017

	Note	2017 £	2016 £
Long term assets			
Exploration and evaluation assets	7	11,399,089	4,675,444
Tangible assets	8	393,240	169,754
		<u>11,792,329</u>	<u>4,845,198</u>
Current assets			
Debtors	9	652,695	50,967
Creditors: amounts falling due within one year	10	<u>(1,425,110)</u>	<u>(33,202)</u>
Net current liabilities		<u>(772,415)</u>	<u>17,765</u>
Total assets less current liabilities			
Creditors: amounts falling due after one year	11	<u>(9,991,365)</u>	<u>(1,068,178)</u>
Total net assets		<u>1,028,549</u>	<u>3,794,785</u>
Capital and reserves			
Called up share capital	13	7,552,555	7,552,555
Profit and loss account		<u>(6,524,006)</u>	<u>(3,757,770)</u>
Shareholders' funds		<u>1,028,549</u>	<u>3,794,785</u>

- For the year ended 31 December 2017 the company was entitled to exemption under section 479A of the Companies Act 2006 relating to subsidiary companies.
- The members have not required the company to obtain an audit in accordance with section 476 of the Companies Act 2006
- The directors acknowledge their responsibilities for complying with the requirements of the Act with respect to accounting period and the preparation of the accounts.

These financial statements were approved by the Board on 28 September 2018, and signed on its behalf by:



Stephen Sanderson
Director

Registered number: 07055133

The notes on pages 10 to 22 form part of these financial statements

UKOG (234) LIMITED
STATEMENT OF CHANGES IN EQUITY
YEAR ENDED 31 December 2017

	Share capital £	Profit and loss account £	Total £
At 1 January 2016	400,000	(3,681,421)	(3,281,421)
Loss for the year	-	(76,349)	(76,349)
Other comprehensive income	-	-	-
Total comprehensive income	-	(76,349)	(76,349)
Share issue	7,152,555	-	7,152,555
At 31 December 2016	<u>7,552,555</u>	<u>(3,757,770)</u>	<u>3,794,785</u>

	Share capital £	Profit and loss account £	Total £
At 1 January 2017	7,552,555	(3,757,770)	3,794,785
Loss for the year	-	(2,766,236)	(2,766,236)
Other comprehensive income	-	-	-
Total comprehensive income	-	-	-
At 31 December 2017	<u>700,000</u>	<u>(6,524,006)</u>	<u>1,028,549</u>

The notes on pages 10 to 22 form part of these financial statements

UKOG (234) LIMITED
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED 31 December 2017

1 General information

UKOG (234) Limited 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 UKOG (234) Limited (the "company") for the year ended 31 December 2017 were authorised for issue by the board of directors on 28 September 2018 and the balance sheet was signed on the board's behalf by 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 Accounting policies

The following accounting policies have been consistently applied in deciding the items which are considered material in relation to the financial statements.

Basis of preparation

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 14.

The accounting policies which follow set out those policies which apply in preparing the financial statements for the year ended 31 December 2017.

Summary of disclosure exemptions

The company has taken advantage of the following disclosure exemptions under 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;
- 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.

UKOG (234) LIMITED
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED 31 December 2017

3 Accounting policies (continued)

New standards, amendments and interpretations adopted by the Company

No new and/or revised Standards and Interpretations have been required to be adopted, and/or are applicable in the current year by/to the company, as standards, amendments and interpretations which are effective for the financial year beginning on 1 January 2017 are not material to the company.

New standards, amendments and interpretations not yet adopted

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 company has started the analysis of possible effects from implementing these standards on the company's financial statements, but will not be early adopting these. Their adoption is not expected to have a material effect on the financial statements:

At the date of authorisation of these financial statements, the following IFRSs, IASs and Interpretations were in issue but not yet effective. Their adoption is not expected to have a material effect on the financial statements unless otherwise indicated:

- IFRS 16 Leases (effective date 1 January 2019);
- IFRS 17 Insurance Contracts (effective date 1 January 2021).

Going concern

The company is reliant on the continued financial support of its parent company UK Oil and Gas Investments PLC ("UKOG").

The cost structure of the Group 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 Group to operate within its available funding.

These forecasts demonstrate that the Group has sufficient cash funds available 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.

Oil & Gas properties ("OGP"), 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.

UKOG (234) LIMITED
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED 31 December 2017

3 Accounting policies (continued)

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.

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.

(iv) 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.

UKOG (234) LIMITED
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED 31 December 2017

3 Accounting policies (continued)

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 generally 20 years for refineries, and major inspection costs are amortised over three to five years, which represents the estimated period before the next planned major inspection. Property, plant and equipment held under finance leases are depreciated over the shorter of lease term and estimated useful life. An item of property, plant and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. 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.

(ii) 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 company, 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.

Provision for rehabilitation / Decommissioning Liability

The company recognises a decommissioning liability where it has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount of obligation can be made.

The obligation generally arises when the asset is installed, or the ground/environment is disturbed at the field location. When the liability is initially recognised, the present value of the estimated costs is capitalised by increasing the carrying amount of the related oil and gas assets to the extent that it was incurred by the development/construction of the field. Any decommissioning obligations that arise through the production of inventory are expensed when the inventory item is recognised in cost of goods sold.

Changes in the estimated timing or cost of decommissioning are dealt with prospectively by recording an adjustment to the provision and a corresponding adjustment to oil and gas assets.

Any reduction in the decommissioning liability and, therefore, any deduction from the asset to which it relates, may not exceed the carrying amount of that asset. If it does, any excess over the carrying value is taken immediately to the statement of profit or loss and other comprehensive income.

UKOG (234) LIMITED
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED 31 December 2017

3 Accounting policies (continued)

If the change in estimate results in an increase in the decommissioning liability and, therefore, an addition to the carrying value of the asset, the company considers whether this is an indication of impairment of the asset as a whole, and if so, tests for impairment. If, for mature fields, the estimate for the revised value of oil and gas assets net of decommissioning provisions exceeds the recoverable value, that portion of the increase is charged directly to expense. Over time, the discounted liability is increased for the change in present value based on the discount rate that reflects current market assessments and the risks specific to the liability. The periodic unwinding of the discount is recognised in the statement of profit or loss and other comprehensive income as a finance cost. The company recognises neither the deferred tax asset in respect of the temporary difference on the decommissioning liability nor the corresponding deferred tax liability in respect of the temporary difference on a decommissioning asset.

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. However, deferred tax is not provided on the initial recognition of goodwill, nor on the initial recognition of an asset or liability unless the related transaction is a business combination or affects tax or accounting profit. Deferred tax on temporary differences associated with shares in subsidiaries and joint ventures is not provided if reversal of these temporary differences can be controlled by the Company and it is probable that reversal will not occur in the foreseeable future. In addition, tax losses available to be carried forward as well as other income tax credits to the Company are assessed for recognition as deferred tax assets.

Deferred tax liabilities are provided in full, with no discounting. Deferred tax assets are recognised to the extent that it is probable that the underlying deductible temporary differences will be able to be offset against future taxable income. 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 divided into the following categories: loans and receivables and available-for-sale financial assets. 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. Both loans and receivables and available for sale financial assets 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.

UKOG (234) LIMITED
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED 31 December 2017

3 Accounting policies (continued)

A financial asset is derecognised only where the contractual rights to the cash flows from the asset expire or the financial asset is transferred, and that transfer qualifies for derecognition. A financial asset is transferred if the contractual rights to receive the cash flows of the asset have been transferred or the company retains the contractual rights to receive the cash flows of the asset but assumes a contractual obligation to pay the cash flows to one or more recipients. A financial asset that is transferred qualifies for derecognition if the company transfers substantially all the risks and rewards of ownership of the asset, or if the company neither retains nor transfers substantially all the risks and rewards of ownership but does transfer control of that asset.

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.

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 consolidated 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 consolidated financial statements. Estimates and assumptions are continuously evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. 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.

UKOG (234) LIMITED
NOTES TO THE FINANCIAL STATEMENTS
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3 Accounting policies (continued)

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 consolidated financial statements:

(a) 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.

(a) Hydrocarbon reserve and resource estimates

Hydrocarbon reserves are estimates of the amount of hydrocarbons that can be economically and legally extracted from the company's oil and gas properties. The company estimates its commercial reserves and resources based on information compiled by appropriately qualified persons relating to the geological and technical data on the size, depth, shape and grade of the hydrocarbon body and suitable production techniques and recovery rates. Commercial reserves are determined using estimates of oil and gas in place, recovery factors and future commodity prices, the latter having an impact on the total amount of recoverable reserves and the proportion of the gross reserves which are attributable to the host government under the terms of the Production-Sharing Agreements. Future development costs are estimated using assumptions as to the number of wells required to produce the commercial reserves, the cost of such wells and associated production facilities, and other capital costs. The current long-term Brent oil price assumption used in the estimation of commercial reserves is US\$80/bbl.

The company estimates and reports hydrocarbon reserves in line with the principles contained in the SPE Petroleum Resources Management Reporting System (PRMS) framework. As the economic assumptions used may change and as additional geological information is obtained during the operation of a field, estimates of recoverable reserves may change. Such changes may impact the company's reported financial position and results, which include:

- The carrying value of exploration and evaluation assets; oil and gas properties; property, plant and equipment; and goodwill may be affected due to changes in estimated future cash flows
- Depreciation and amortisation charges in the statement of profit or loss and other comprehensive income may change where such charges are determined using the Units of Production (UOP) method, or where the useful life of the related assets change
- Provisions for decommissioning may require revision — where changes to the reserve estimates affect expectations about when such activities will occur and the associated cost of these activities

UKOG (234) LIMITED
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED 31 December 2017

3 Accounting policies (continued)

- The recognition and carrying value of deferred tax assets may change due to changes in the judgements regarding the existence of such assets and in estimates of the likely recovery of such assets

(b) 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.

(c) Units of production (UOP) depreciation of oil and gas assets

Oil and gas properties are depreciated using the UOP method over total proved developed and undeveloped hydrocarbon reserves. This results in a depreciation/amortisation charge proportional to the depletion of the anticipated remaining production from the field.

The life of each item, which is assessed at least annually, has regard to both its physical life limitations and present assessments of economically recoverable reserves of the field at which the asset is located. These calculations require the use of estimates and assumptions, including the amount of recoverable reserves and estimates of future capital expenditure.

The calculation of the UOP rate of depreciation/amortisation will be impacted to the extent that actual production in the future is different from current forecast production based on total proved reserves, or future capital expenditure estimates change. Changes to proved reserves could arise due to changes in the factors or assumptions used in estimating reserves, including:

- The effect on proved reserves of differences between actual commodity prices and commodity price assumptions
- Unforeseen operational issues

(d) Recoverability of oil and gas assets

The company assesses each asset or cash generating unit (CGU) (excluding goodwill, which is assessed annually regardless of indicators) each reporting period to determine whether any indication of impairment exists. Where an indicator of impairment exists, a formal estimate of the recoverable amount is made, which is considered to be the higher of the fair value less costs of disposal (FVLCD) and value in use (VIU). The assessments require the use of estimates and assumptions such as long-term oil prices (considering current and historical prices, price trends and related factors), discount rates, operating costs, future capital requirements, decommissioning costs, exploration potential, reserves (see (a) *Hydrocarbon reserves and resource estimates* above) and operating performance (which includes production and sales volumes). These estimates and assumptions are subject to risk and uncertainty. Therefore, there is a possibility that changes in circumstances will impact these projections, which may impact the recoverable amount of assets and/or CGUs.

UKOG (234) LIMITED
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED 31 December 2017

3 Accounting policies (continued)

Information on how fair value is determined by the company follows.

(e) Decommissioning costs

Decommissioning costs will be incurred by the company at the end of the operating life of some of the company's facilities and properties. The company assesses its decommissioning provision at each reporting date. The ultimate decommissioning costs are uncertain and cost estimates can vary in response to many factors, including changes to relevant legal requirements, the emergence of new restoration techniques or experience at other production sites. The expected timing, extent and amount of expenditure may also change — for example, in response to changes in reserves or changes in laws and regulations or their interpretation.

Therefore, significant estimates and assumptions are made in determining the provision for decommissioning. As a result, there could be significant adjustments to the provisions established which would affect future financial results.

External valuers may be used to assist with the assessment of future decommissioning costs. The involvement of external valuers is determined on a case by case basis, taking into account factors such as the expected gross cost or timing of abandonment, and is approved by the company's director. Selection criteria include market knowledge, reputation, independence and whether professional standards are maintained. The provision at reporting date represents management's best estimate of the present value of the future decommissioning costs required

(a) 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.

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.

UKOG (234) LIMITED
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED 31 December 2017

3 Accounting policies (continued)

Taxation

Income tax expense is comprised of the sum of current tax expense (or benefit) plus the change in deferred tax liabilities and assets during the period, except for current and deferred income tax relating to items recognised in the Profit and Loss and Statement of Other Comprehensive Income, in which case the tax is also recognised in the Statement of Other Comprehensive Income.

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and liabilities are calculated using the liability method for all temporary differences between the carrying amount of assets and liabilities in the financial statements and for tax purposes, including tax losses carried forward.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent it is no longer probable that estimated future taxable profit will be sufficient to recover all or part of the deferred tax asset. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent it has become probable that estimated future taxable profit is sufficient to recover the deferred tax asset. The probability assessment is based on management's judgment and estimates of future taxable income, including the estimated effect of tax planning opportunities.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the estimated year of realisation or settlement, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes are related to the same taxable entity and the same taxation authority.

4 Operating profit / (loss)	2017	2016
	£	£
Arrived at after charging / (crediting):		
Foreign exchange (gains) / losses	3,306	(2,300)
Fixed asset write off	2,622,487	22,056
Depreciation, Depletion & Amortisation	116,432	-

5 Directors' remuneration

Salary & Fees:	2017	2016
	£	£
S Sanderson	-	-
J Lorsong	3,000	2,762
D Maling	4,000	4,000
	<u>7,000</u>	<u>6,762</u>

UKOG (234) LIMITED
NOTES TO THE FINANCIAL STATEMENTS
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6 Taxation	2017	2016
	£	£
(a) Analysis of tax charged / (credited)		
Current taxation		
UK corporation tax	-	-
Total current income tax	<u>-</u>	<u>-</u>
Deferred taxation		
Current year (credit) / charge	-	-
Adjustments to the estimated recoverable amounts of deferred tax assets arising in previous periods	-	-
Total deferred taxation	<u>-</u>	<u>-</u>

(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 19.25% (2016 – 20%). The differences are reconciled below:

	2017	2016
	£	£
Profit / (loss) before tax	(2,776,236)	(76,349)
Corporation tax at standard rate	(532,500)	(15,270)
Expenses not deductible for tax purposes	504,829	4,411
Losses carried forward	27,672	10,859
Total tax charge / (credit)	<u>-</u>	<u>-</u>

7 Exploration and evaluation assets

	£
Cost	
At 1 January 2016	4,806,415
Additions	309,084
Revaluations	(440,055)
At 31 December 2016	<u>4,675,444</u>
Additions	9,346,132
Exploration write off	(2,622,487)
At 31 December 2017	<u>11,399,089</u>

During the year there was an impairment charge on the exploration assets. The directors has assessed the fair value of the exploration and evaluation assets as a 31 December 2017 and concluded at this time that the initial hole drilled during the previous year should be impaired as it would be unlikely to be utilised and therefore should be fully impaired.

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. The additions during the year reflect the associated exploration and evaluation activities. At this point, the company is still assessing the potential of these assets and will continue to develop and evaluate these assets in the coming year. There has been no material change to the Licence area in the year. The director therefore considers that no further impairment is required at 31 December 2017.

UKOG (234) LIMITED
NOTES TO THE FINANCIAL STATEMENTS
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8 Tangible assets	Property Plant & equipment £	
Cost		
At 1 January 2016		248,092
Revaluations		<u>(78,338)</u>
At 31 December 2016		169,754
 Additions		 <u>339,918</u>
At 31 December 2017		<u>509,672</u>
 Amortisation		
At 1 January 2016		-
Charge for the year		<u>-</u>
At 31 December 2016		-
 Charge for the year		 <u>116,432</u>
At 31 December 2017		<u>116,432</u>
 Net book values		
At 31 December 2016		<u>169,754</u>
At 31 December 2017		<u>393,240</u>
 9 Debtors	2017	2016
	£	£
Other debtors	<u>652,695</u>	<u>50,967</u>
 10 Creditors: amounts falling due within one year	2017	2016
	£	£
Trade creditors	668,938	33,202
Accruals and deferred income	<u>756,172</u>	<u>-</u>
	<u>1,425,110</u>	<u>33,202</u>
 11 Creditors: amounts falling due after one year	2017	2016
	£	£
Amounts payable to ultimate parent company	9,991,365	1,068,178
 12 Share capital	2017	2016
Ordinary £1 shares	Number	Number
Authorised	7,522,555	400,000
Allotted, called up and paid up	<u>7,522,555</u>	<u>400,000</u>
	£	£
	7,522,555	400,000

UKOG (234) LIMITED
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED 31 December 2017

13 Related party transactions

As a wholly owned subsidiary of UK Oil and Gas Investments PLC the company has taken advantage of the exemption under paragraph 8(k) of FRS101 not to disclose transactions with other wholly owned group companies. There were no other related party transactions.

14 Ultimate parent undertaking

The company's immediate, ultimate and controlling parent undertaking UK Oil and Gas Investments PLC, a company incorporated in the United Kingdom.

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