Rathlin Energy (UK) Limited

Directors' report and financial statements

Registered number 06478035

For the year ended

31 December 2017

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Contents

Directors' report

The Directors present their Directors' report and financial statements for the year ended 31 December 2017.

In preparing the financial statements, the directors have taken advantage of the small companies' exemption provided by section 414B of the Companies Act 2006 Regulations 2013, SI 2013 No. 1970.

Principal Activities

The principal activity of the Company continues to be that of the appraisal and development for oil and gas assets in the United Kingdom.

Proposed dividend

The Directors do not recommend the payment of a dividend (2016: £Nil).

Directors

The Directors who held office during the year were as follows:

John A. Hodgins
David A. Montagu-Smith
Dermot W. Nesbitt (Appointed 23 February 2017)
Robert C. Standley

Going concern

These accounts have been prepared on a going concern basis as the Directors believe that it remains appropriate to do so. Please see note 1 to the accounts for further explanation including an explanation of the material uncertainty regarding going concern.

Future risks and uncertainties

Commodity price risk

The Company's results are sensitive to crude oil and natural gas prices which are dependent on a number of factors which impact world supply and demand.

Reserves development and future delivery

The nature of exploration activities means that there is an inherent risk with respect to whether commercially viable and technically feasible hydrocarbon reserves will be found.

Other risks

On 23 June 2016, the UK electorate voted to discontinue its membership of the EU. Until further clarity is known regarding terms in which the UK will exit, the directors are not able to assess the impact on the Company or what impact the wider regulatory and legal consequences of the UK leaving the EU would be on the Company.

Political contributions

The Company made no political donations or incurred any political expenditure during the year (2016: £Nil).

Disclosure of information to auditor

The Directors who held office at the date of approval of this Directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditor is unaware; and each Director has taken all the steps that he ought to have taken as a Director to make himself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

Auditor

Pursuant to Section 487 of the Companies Act 2006, the auditor will be deemed to be reappointed and KPMG LLP will therefore continue in office.

By order of the board

John A Hodgins
3rd Floor 11-12 St. James's Square, London, SW1Y 4LB
Director
26 October 2018

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE DIRECTORS' REPORT AND THE FINANCIAL STATEMENTS

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

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK accounting standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*.

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 then apply them consistently;
- make judgements and 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;
- assess the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

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 responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities

KPMG

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF RATHLIN ENERGY (UK) LIMITED

Opinion

We have audited the financial statements of Rathlin Energy (UK) Limited ("the company") for the year ended 31 December 2017 which comprise the Profit and Loss Account, Balance Sheet, Statement of Changes in Equity and related notes, including the accounting policies in note 1.

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2017 and of its loss for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the company in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Material uncertainty relating to going concern

We draw your attention to Note 1 of the financial statements which indicates that the Company, which is currently loss-making and had net current liabilities of £32.5 million at the balance sheet date, is in the process of both sourcing new financing to support its future operations and farming out part of its existing licenses to other parties, as well as negotiating the settlement of its existing debt of £32.9 million owed to its ultimate parent company by way of a share issue. These conditions along with other matters explained in note 1, constitute a material uncertainty that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Directors' report

The directors are responsible for the directors' report. Our opinion on the financial statements does not cover that report and we do not express an audit opinion thereon.

Our responsibility is to read the directors' report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

- we have not identified material misstatements in the directors' report;
- in our opinion the information given in that report for the financial year is consistent with the financial statements; and
- in our opinion that report has been prepared in accordance with the Companies Act 2006.

KPMG

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF RATHLIN ENERGY (UK) LIMITED (CONTINUED)

Matters on which we are required to report by exception

Under the Companies Act 2006 we are required to report to you if, in our opinion:

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

We have nothing to report in these respects.

Directors' responsibilities

As explained more fully in their statement set out on page 2, the directors are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; 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 they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

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

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

The purpose of our audit work and to whom we owe our responsibilities

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.

M Smith

Mark Smith (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants 15 Canada Square London
E14 5GL
United Kingdom
30 October 2018

Profit and Loss Account
for the year ended 31 December 2017

	Note	2017	2016
		£	£
Administrative expenses		(1,333,711)	(1,108,072)
Impairment of intangible assets		-	(34,836,833)
Operating loss		**(1,333,711)**	(35,944,905)
Interest income		-	-
Loss before taxation	2	**(1,333,711)**	(35,944,905)
Tax on loss	5	-	-
Loss after taxation		**(1,333,711)**	(35,944,905)

A statement of other comprehensive income has not been included as part of these financial statements, as the Company made no gains or losses in year other than disclosed above in the profit and loss account.

A note on historical cost gains and losses has not been included as part of the financial statements as the results as disclosed in the profit and loss account are prepared on an unmodified historical cost basis.

The results stated above are all derived from continuing operations.

The notes on pages 8 to 14 form part of these financial statements.

Balance Sheet
at 31 December 2017

	Note	2017	2017	2016	2016
		£	£	£	£
Fixed assets					
Intangible fixed assets	6		3,396,133		3,031,911
Tangible fixed assets	7		19,441		25,363
			3,415,574		3,057,274
Current assets					
Debtors	8	141,897		128,862	
Cash at bank and in hand		315,345		103,281	
		457,242		232,143	
Creditors: amounts falling due within one year	9	(32,915,532)		(30,944,369)	
Net current liabilities			(32,458,290)		(30,712,226)
Provisions for decommissioning obligations	10		(966,871)		(1,020,924)
Net liabilities			(30,009,587)		(28,675,876)
Capital and reserves					
Called up share capital	11		2,097		2,097
Share premium account			12,522,045		12,522,045
Profit and loss account			(42,533,729)		(41,200,018)
Shareholders' deficit			(30,009,587)		(28,675,876)

These financial statements were approved by the board of directors on 26 October 2018 and were signed on its behalf by:

John A Hodgins
Director

Company number 06478035

The notes on pages 8 to 14 form part of these financial statements.

Statement of Changes in Equity
for the year ended 31 December 2017

	Called up Share capital	Share Premium account	Profit and loss account	Total equity
	£	£	£	£
Balance at 1 January 2016	2,097	12,522,045	(5,255,113)	7,269,029
Loss for the period	-	-	(35,944,905)	(35,944,905)
Balance at 31 December 2016	**2,097**	**12,522,045**	**(41,200,018)**	**(28,675,876)**

	Called up Share capital	Share Premium account	Profit and loss account	Total equity
	£	£	£	£
Balance at 1 January 2017	2,097	12,522,045	(41,200,018)	(28,675,876)
Loss for the period	-	-	(1,333,711)	(1,333,711)
Balance at 31 December 2017	**2,097**	**12,522,045**	**(42,533,729)**	**(30,009,587)**

The notes on pages 8 to 14 form part of these financial statements.

Notes
(forming part of the financial statements)

1 Accounting policies

Rathlin Energy (UK) Limited (the "Company") is a company limited by shares and incorporated and domiciled in the England, United Kingdom.

The financial statements have been prepared in accordance with Financial Reporting Standard 102 the Financial Reporting Standard applicable in the UK and Republic of Ireland ("FRS 102") as issued in August 2014. The presentation currency of these financial statements is the pound sterling.

The Company's ultimate parent undertaking, Connaught Oil & Gas Ltd. includes the Company in its consolidated financial statements. The consolidated financial statements of Connaught Oil & Gas Ltd. are prepared in accordance with International Financial Reporting Standards and may be obtained from 1300, 530 8th Avenue S.W. Calgary, AB T2P 3S8. In these financial statements, the company is considered to be a qualifying entity (for the purposes of this FRS) and has applied the exemptions available under FRS 102 in respect of the following disclosures:

- Cash Flow Statement and related notes; and
- Key Management Personnel compensation.

As the consolidated financial statements of Connaught Oil & Gas Ltd. include the equivalent disclosures, the Company has also taken the exemptions under FRS 102 available in respect of the following disclosures:

- The disclosures required by FRS 102.11 *Basic Financial Instruments* and FRS 102.12 *Other Financial Instrument Issues* in respect of financial instruments not falling within the fair value accounting rules of Paragraph 36(4) of Schedule 1.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements.

Judgements made by the directors, in the application of these accounting policies that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 6 and 10.

Going Concern

The financial statements have been prepared on the going concern basis, which assumes that the Company will continue its operations for the foreseeable future and will be able to realise its assets and discharges it liabilities and commitments in the normal course of business.

As at the year ended 31 December 2017, the Company has net liabilities of £30,009,587 (2016: net liabilities of £28,675,876) and net current liabilities of £32,458,290 (2016: net current liabilities of £30,712,226), included within these amounts are amounts owed to the Company's ultimate parent of £32,869,601 (2016: £30,869,542). Amounts owed to the ultimate parent are repayable on demand. The Company currently meets its day to day working capital requirements through this loan facility and is dependent on these loans not being recalled. As at the time of approval of these financial statements this loan is £33,974,160. However, there is uncertainty as to the ultimate parent's ability to continue to finance the Company's operations. As a result, the Company plans to settle the outstanding loan from its ultimate parent through the issuance of ordinary shares in conjunction with the execution of the equity financing noted below.

The Company has initiated a private equity financing with a new equity investor and selected shareholders of the Company's ultimate parent undertaking. The financing process has resulted in indications of willingness to subscribe for the Company's ordinary shares with approximate proceeds of £4.7 million. The offering is anticipated to close in the fourth quarter of 2018.

Further to the equity financing the Company is also in discussions with two parties to farm out part of its exploration licence to each party. Each party farming in will be responsible for settling their respective share of the capital and general expenditure incurred on the licence. These farm in agreements are expected to be complete in the fourth quarter of 2018 with heads of agreement already in place.

In assessing the Company's ability to continue as a going concern, the Directors have prepared cash flow forecasts for a period in excess of 12 months for the date of approval of these financial statements. These forecasts assume that the equity funding and farm in transactions will be successfully completed in the expected timeframes. The expected equity cash flows are projected to be sufficient to fund the Company's obligations for at least the next 12 months. The Company will use the proceeds to finance significant capital expenditures on the appraisal and development of its oil and gas assets.

Notes *(continued)*
(forming part of the financial statements)

1 Accounting policies *(continued)*

The Directors believe that the completion of the above transactions will enable the Company to continue as a going concern and meet commitments as they come due. The Directors acknowledge that there can be no certainty that these transactions will close as anticipated, although at the date of approval of these financial statements, they have no reason to believe that they will not do so.

These conditions represent a material uncertainty that may cast significant doubt on the ability of the Company to continue as a going concern, and therefore, to continue realizing its assets and discharging its liabilities in the normal course of business. These financial statements do not reflect the adjustments and classifications of assets, liabilities, revenues and expenses which would be necessary if the Company were unable to continue as a going concern.

(a) Exploration expenditure

The Company accounts for petroleum and natural gas activities in accordance with the full cost method whereby all costs associated with the acquisition of, exploration for and development of petroleum and natural gas reserves are capitalized and charged to earnings as set out below. Such costs include lease acquisition costs, geological and geophysical costs, carrying charges of non-producing properties, costs of drilling both productive and non-productive wells, tangible production equipment costs, and general and administrative costs directly related to, and necessary to, exploration and development activities.

All costs relating to license and data acquisition, geological and geophysical activity and exploration and appraisal drilling are initially capitalized as intangible oil and gas assets pending determination of the commercial potential of the relevant oil and gas properties.

If prospects are subsequently deemed to be unsuccessful on completion of evaluation, the associated costs are charged to the profit and loss account in the period in which that determination is made. If the prospects are deemed to be commercially viable, such costs are transferred to tangible oil and gas assets.

In applying the full cost method, petroleum and natural gas assets are evaluated at least annually to determine whether the costs are recoverable and do not exceed the fair value of the properties.

If the carrying amount is not assessed to be recoverable, an impairment loss is recognized to the extent that the carrying amount exceeds the recoverable amount. The fair value of intangible assets is based on the recoverable amount which is determined to be the higher of fair value less cost to sell or value in use. The fair value is estimated with reference to the price that would be received to sell an asset to a market participant acting in their own best interests. Information considered in the determination of fair value included any company specific financing transactions, recent transactions involving industry peers, and other publically available information. Any impairment loss recorded is included in impairment of intangible assets.

Impairment losses recognized in prior years are assessed at each reporting date if facts and circumstances indicate that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depletion and depreciation, if no impairment loss had been recognized

(b) Taxation

The charge for taxation is based on the loss for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes.

Deferred tax is recognised, without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date. Deferred tax is measured at the tax rate that is expected to apply to the reversal of the related difference, using tax rates enacted or substantively enacted at the balance sheet date.

Unrelieved tax losses and other deferred tax assets are recognised only to the extent that is it probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits.

Notes *(continued)*
(forming part of the financial statements)

1 Accounting policies ***(continued)***

(c) Foreign currencies

The Company's functional currency is the pound sterling. Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction or, if hedged forward, at the rate of exchange under the related forward currency contract. Monetary assets and liabilities denominated in foreign currencies are translated using the contracted rate or the rate of exchange ruling at the balance sheet date and the gains or losses on translation are included in the profit and loss account

(d) Tangible fixed assets and depreciation

Depreciation is provided to write off the cost less the estimated residual value of tangible fixed assets by equal instalments over their estimated useful economic lives as follows:

Leasehold improvements and office furniture	-	20% reducing balance
Computer equipment	-	30% reducing balance

(e) Decommissioning obligations

Provision for decommissioning is recognised in full when the related facilities are installed. A corresponding amount equivalent to the provision is also recognised as part of the cost of the related property, plant and equipment. The amount recognised is the estimated cost of decommissioning, discounted to its net present value, and is reassessed each period in accordance with local conditions and requirements.

Changes in the estimated timing of decommissioning or decommissioning cost estimates are dealt with prospectively by recording an adjustment to the provision and a corresponding adjustment to property, plant and equipment. The unwinding of the discount on the decommissioning is included as a finance cost.

2 Expenses and auditor's remuneration

Included in profit/loss are the following:

	2017 £	2016 £
Impairment loss on intangible assets	-	34,836,833

	2017 £	2016 £
Auditor's remuneration:		
Audit of these financial statements	6,300	6,670
Amounts receivable by the auditors and their associates in respect of: Other services related to taxation	2,573	5,700

3 Remuneration of Directors

	2017 £	2016 £
Fees paid to Directors	12,005	8,640

The Company did not make any pension contributions in the year (2016: £Nil).

Notes *(continued)*
(forming part of the financial statements)

4 Staff numbers and costs

The average number of persons employed by the Company during the year was as follows:

	Number of employees	
	2017	2016
Staff (including Directors)	**7**	6

The aggregate payroll costs of these persons were as follows:

	£	£
Wages and salaries	**127,010**	229,076
Social security costs	**36,709**	24,536
Pension contributions	**261**	-
	163,980	253,612

5 Taxation

	2017 £	2016 £
Current tax on income for the period	-	-
Deferred tax	-	-
Total tax	-	-

Reconciliation of effective tax rate

	2017 £	2016 £
Loss on ordinary activities before taxation	**(1,333,711)**	(35,944,905)
Tax using the UK corporation tax rate of 19% (2016: 20%)	**(253,405)**	(7,188,981)
Expenses not deductible for tax purposes	-	-
Current period losses for which no deferred tax asset was recognised	253,405	7,188,981
Total tax expense included in profit or loss	-	-

Deferred tax
The Company has unrelieved tax losses which can be recovered against tax profits in the future. A deferred tax asset has not been recognised as it is uncertain that the Company will generate suitable taxable profits in the future. Losses of £42,533,729 (*2016*: £41,200,033) have been carried forward.

Notes *(continued)*
(forming part of the financial statements)

5 Taxation *(continued)*

Reductions in the UK corporation tax rate to 19% (effective from 29 March 2017) and to 18% (effective 1 April 2020) were substantively enacted on 26 October 2015. An additional reduction to 17% (effective 29 March 2020) was substantively enacted on 6 September 2016. This will reduce the company's future current tax charge accordingly.

6 Intangible fixed assets

Cost and Net Book Value	Exploration expenditure £
At the beginning of the year	3,031,911
Additions	364,222
At the end of the year	**3,396,133**

There is no amortisation charge for the year, as the exploration assets are not yet in production.

During 2017, the Company reviewed the carrying amount of its intangible assets for indicators of impairment such as changes in future prices, future costs and recent market activity. Information considered in the determination of fair value included financing transactions within the consolidated corporate structure, recent transactions involving industry peers, and other publically available information. Based on this review, the Company did not identify and indicators of impairment and as such no impairment has been recognised during 2017.

7 Tangible fixed assets

	Office furniture £	Computer equipment £	Total £
Cost			
At beginning of the year	51,677	46,649	98,326
Additions	-	-	-
At end of the year	51,677	46,649	98,326
Depreciation			
At beginning of the year	34,814	38,149	72,963
Charge for the year	3,372	2,550	5,922
At end of the year	38,186	40,699	78,885
Net book value			
At 31 December 2017	**13,491**	**5,950**	**19,441**
At 31 December 2016	16,863	8,500	25,363

Notes *(continued)*
(forming part of the financial statements)

8 Debtors

	2017	2016
	£	£
Prepayments	78,280	79,880
VAT receivable	15,231	14,498
Amounts owed from group undertakings	48,386	34,484
	141,897	128,862

All debtors are due within one year.

9 Creditors: amounts falling due within one year

	2017	2016
	£	£
Amounts owed to ultimate parent undertaking	32,869,601	30,869,542
Accruals	45,931	74,827
	32,915,532	30,944,369

10 Provisions for decommissioning obligations

	2017	2016
	£	£
At beginning of the year	1,020,924	1,250,601
Costs settled	-	(45,842)
Revisions during the year	(89,786)	(219,980)
Accretion	35,733	36,145
At end of the year	966,871	1,020,924

The provision for decommissioning is in respect of the West Newton site.

The remaining provision at 31 December 2017 represents the present value of the amounts that are expected to be incurred during 2033 to decommission the West Newton site. The provision was determined using an engineer's estimates that management believe form a reasonable basis for the expected future costs of decommissioning.

Notes *(continued)*
(forming part of the financial statements)

11 Called up share capital

	2017 £	2016 £
Allotted, called up and fully paid		
Equity: 2,097 *(2016: 2,097)* ordinary shares	2,097	2,097

12 Operating leases

Non-cancellable operating lease rentals are payable as follows:

	2017 £	2016 £
Less than one year	25,500	25,500
Between one and five years	6,375	31,875
	31,875	57,375

During 2016, the Company committed to the leasing of office space for a period of three years commencing April 2016. During the year £25,500 was recognised as an expense in the profit and loss account in respect of operating leases (*2016*: £20,413).

13 Ultimate parent company and parent undertaking of larger group of which the Company is a member

The Company is a subsidiary undertaking of Sunderland Holding Limited which is the immediate parent company incorporated in Jersey. The ultimate parent company and ultimate controlling party is Connaught Oil & Gas Ltd., incorporated in Canada.

The largest and smallest group in which the results of the Company are consolidated is that headed by Connaught Oil & Ga s Ltd. No other group financial statements include the results of the Company. The consolidated financial statements of these groups may be obtained from 1300, 530 8th Avenue S.W. Calgary, AB T2P 3S8.

14 Related parties

During 2017, the Company incurred expenses totalling £80,000 (2016: £40,833) from a management consulting company in which David Montague Smith, Director of the Company, is the owner. Of this amount, £nil (2016: £4,000) are included in the creditors balance as at 31 December 2017. These amounts were billed at rates consistent with those charged to third parties.