

Star Energy Oil & Gas Limited
Report and Financial Statements
for the nine months ended 31 December 2015



Company information

Directors S D Bowler
J M Blaymires
J L Tedder

Registered number 2275006

Registered office 7 Down Street
London
W1J 7AJ

Directors' report

Registered number: 2275006

The Directors present their report together with the unaudited financial statements for the nine months ended 31 December 2015.

The Company was dormant throughout the current period and accordingly no profit and loss account has been presented.

Directors of the Company

The current Directors are shown on page **Error! Bookmark not defined..**

Directors' liabilities

Subject to the conditions set out in the Companies Act 2006, the Company has arranged appropriate directors and officers insurance to indemnify the directors and officers against liability in respect of proceedings brought by third parties. Such provision remains in force at the date of this report.

The Company indemnifies the Directors against actions they undertake or fail to undertake as Directors or officers of any Group company, to the extent permissible for such indemnities to meet the test of a qualifying third party indemnity provision as provided for by the Companies Act 2006. The nature and extent of the indemnities is as described in Section 51 of the Company's Articles of Association as adopted on 14 December 2011. These provisions remained in force throughout the period and remain in place at the date of this report.

Going concern

The Company is a subsidiary of IGas Energy plc ("IGas") which provides it with access to suitable central resources including finance. IGas has given certain assurances regarding the financing of the Company's commitments falling due in the year following approval by the Board of this annual report; such continued support is subject to the material uncertainty described in note 2 to the financial statements. The directors have concluded, after taking into account this material uncertainty and making such enquiries as they considered appropriate, that the financial statements should be prepared on a going concern basis.

Statement of Directors' responsibilities

The directors are responsible for preparing the Directors' report and the financial statements in accordance with applicable UK 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 Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss for that period.

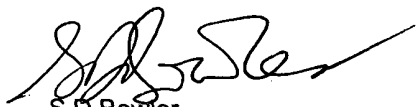
In preparing those financial statements, the directors are required to:

- 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; and
- prepare the financial statements on the going concern basis, unless they consider that to be inappropriate.

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.

Directors' report (continued)

By order of the board

A handwritten signature in black ink, appearing to read 'S D Bowler', with a long horizontal stroke extending to the right.

S D Bowler

Director

30 September 2016

Balance sheet

At 31 December 2015

	Notes	31 December 2015 £000	31 March 2015 £000
Current assets			
Debtors – amounts owed by affiliates	5	504	504
		<u>504</u>	<u>504</u>
Net current assets		504	504
		<u>504</u>	<u>504</u>
Net assets		504	504
		<u>504</u>	<u>504</u>
Capital and reserves			
Called up share capital	6	-	-
Retained earnings		504	504
Shareholders' funds		<u>504</u>	<u>504</u>

Audit exemption


For the nine month period ending 31 December 2015 and the year ended 31 March 2015, the Company was entitled to exemption from audit under section 480 of the Companies Act 2006 relating to dormant 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 records and for the preparation of accounts.

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

These financial statements were approved and authorised for issue by the Board on 30 September 2016 and are signed on its behalf by:



J L Tedder
Director

The notes on pages 5 to 8 form part of these financial statements.

Notes to the financial statements

For the nine months ended 31 December 2015

1. Authorisation of financial statements and statement of compliance with FRS 101

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

The Company's financial statements are presented in Sterling and all values are rounded to the nearest thousand pounds (£000) except when otherwise indicated.

The principal accounting policies adopted by the Company are set out in Note 2.

2. Accounting policies

2.1. Basis of preparation

The Company is exempt by virtue of Section 400 of the Companies Act 2006 from the requirement to prepare consolidated group financial statements. These financial statements therefore present information about the Company as an individual undertaking and not the group.

The accounting policies which follow set out those policies which apply in preparing the financial statements for the period ended 31 December 2015.

The Company has taken advantage of the following disclosure exemptions under FRS 101:

- the requirements of IFRS 7 Financial Instruments: Disclosures;
- the requirement in paragraph 38 of IAS 1 Presentation of Financial Statements to present comparative information in respect of:
 - paragraph 79(a)(iv) of IAS 1;
- the requirements of paragraphs 10(d), 10(f), 39(c) and 134-136 of IAS 1 Presentation of Financial Statements;
- the requirements of IAS 7 Statement of Cash Flows;
- the requirements of paragraph 17 of IAS 24 Related Party Disclosures; and
- 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.

No Profit and loss account or Statement of total recognised gains and losses is prepared.

The company is dormant and has not traded during the current or prior period.

The company received no income and incurred no expenditure in the period and therefore did not make either a profit or loss.

There are no recognised gains or losses attributable to the shareholders of the company for the nine months ended 31 December 2015 (year ended 31 March 2015: nil).

Going concern

The Company is reliant on the continued financial support of its parent company, IGas Energy plc ("IGas"), including financial support provided by other IGas group companies. The directors therefore considered the going concern assessment prepared in respect of the unaudited interim condensed consolidated financial statements of IGas for the six months ended 30 June 2016, approved on 27 September 2016, which included disclosure of the following information in respect of the IGas group's ability to continue as a going concern:

The Group closely monitors and manages its liquidity risks. Cash forecasts for the Group are regularly produced based on, inter alia, the Group's production and expenditure forecasts, management's best estimate of future oil prices (based on current forward curves, adjusted for the Group's hedging programme) and the Group's borrowings. Sensitivities are run to reflect different scenarios including,

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Notes to the financial statements (continued)

Going concern (continued)

but not limited to, possible further reductions in commodity prices below the current forward curve and reductions in forecast oil and gas production rates.

The ability of the Group to operate as a going concern is dependent upon the continued availability of future cash flows and the bonds not becoming repayable earlier than their stated maturity date, which in turn is subject to the holders of the bonds not exercising their rights to early repayment which they would be entitled to do if the Group did not continue to comply with its bond covenants. In response to the low oil price, the Board implemented a series of cost saving initiatives during 2015 that materially reduced both operating costs and G&A spend. During the current period the focus on reducing costs and maintaining adequate liquidity has continued.

The Board held constructive discussions with bondholders in the first half of 2016 seeking to modify and temporarily waive the existing covenants and extend the maturity dates of the bonds, well in advance of the time at which the Group projected non-compliance with the existing covenants. However, due to challenges relating to the Company's existing capital structure together with prevailing equity market conditions, the Group was unable to fully agree new terms at that stage. As reported in June and July 2016, an investor then announced a tender offer for and acquired senior secured bonds with a nominal value of \$38.42 million at a price of 75 cents per bond. We believe that this investor now holds c.34% of the secured bonds and this represents a potential blocking vote in the secured bonds, should the bondholder exercise its right to vote, in relation to any amendments or waivers the Company may seek to the bond terms.

The Group is currently compliant with all its bond covenants, but despite delivering on the cost savings initiatives and with significant cash balances, the continuing low commodity price environment means that the Group's current forecasts project non-compliance with its daily liquidity covenant in the second half of October 2016 and its leverage covenant as at 31st December 2016, measured by reference to the Group's 2016 annual audited accounts expected to be published by the end of April 2017. The Group also remains in discussions with a number of strategic investors and continues to evaluate options for cash and earnings accretive transactions including farm-outs and other asset portfolio management opportunities to improve its cash position and de-leverage its balance sheet

The Group has recently entered into preliminary discussions with its new bondholder, and is continuing discussions with other key bondholders, with a view to achieving changes that will allow the Company's capital structure to be sustainable in the current oil price environment, and which will enable the Group to capitalise on value accretive opportunities. In view of the Group's forecast liquidity covenant position and to provide a platform for the development of such discussions, the Group may seek to undertake to either sell some of its assets, including the sale of bonds, and enter into a pre-paid swap of its oil production from 2017, to generate further cash to allow it to maintain sufficient liquidity, or secure a temporary waiver of its minimum liquidity covenant from its secured and unsecured bondholders in advance of the forecast breach.

This waiver, or such other accommodation as may be provided by the bondholders, would be aimed at providing a platform for the development of further discussions with bondholders and potential investors over the coming months with the objective of agreeing and implementing appropriate changes to the Company's financing arrangements and/or capital structure.

The discussions that have taken place with key bondholders to date remain constructive and indicate that a consensual deal is possible. The Board believes that reaching a consensual solution would be in the interests of all stakeholders of the Group, including its bondholders, in particular because the Group has a number of valuable rights and interests, including the benefit of substantial carry agreements in respect of future development costs on a number of its licences which may be adversely affected and lead to a significant loss in value in the event a consensual solution could not be reached.

Given that the Company is reliant on the financial support of IGas, the matters discussed above give rise to a material uncertainty that may cast doubt upon the Company's ability to continue as a going concern. However, based on the matters discussed above and after making appropriate enquiries, the directors have concluded that the financial statements should be presented on the basis that the Company is a going concern. Accordingly, the financial statements do not include adjustments

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Notes to the financial statements (continued)

Going concern (continued)

relating to the carrying value of assets, the amounts and classification of liabilities, or other adjustments that might result should the Company be unable to continue as a going concern.

2.2. Significant accounting policies

(a) Financial instruments

Impairment of financial assets

In relation to financial assets, a provision for impairment is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor) that the Company will not be able to collect all of the amounts due under the original terms of the invoice. The carrying amount of receivables is reduced through use of an allowance account. Impaired debts are derecognised when they are assessed as uncollectible.

3. Staff costs

The Company does not have any employees (31 March 2015: none).

4. Directors' remuneration

No Directors serving at the balance sheet date or during the current period or previous financial year have been paid any emoluments by the Company as they are employed by IGas Energy plc.

No management charge has been made by IGas Energy plc. It is not considered possible to determine the level of remuneration recharged in respect of the qualifying services rendered by the Directors of the Company.

Details of emoluments paid to Directors for services to the Company are detailed in the IGas Energy plc Annual Report and Accounts available on the parent company's website at www.igasplc.com.

5. Debtors: amounts falling due within one year

	31 December 2015 £000	31 March 2015 £000
Amounts owed by affiliates	504	504
Total debtors	504	504

6. Authorised, issued and called-up share capital

	Par value £/share	31 December 2015 shares	31 March 2015 shares	31 December 2015 £	31 March 2015 £
Authorised share capital	1	1	1	1	1
Allotted, called up and fully paid					
1 April	1	1	1	1	1
31 December/31 March	1	1	1	1	1

The ordinary shares confer the right to vote at general meetings of the Company, to a repayment of capital in the event of liquidation or winding up and certain other rights as set out in the Company's articles of association.

The ordinary shares also confer the right to receive dividends.

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Notes to the financial statements (continued)

7. Subsequent events

There have been no material events since the 31 December 2015 to the date of authorisation of these financial statements which would require disclosure.

8. Ultimate parent undertaking

The Company's ultimate parent undertaking throughout the period and including up to the date of authorisation of these financial statements was IGas Energy plc. The Company is included within the IGas Energy plc accounts which are publicly available from the registered office at 7 Down Street, London, W1J 7AJ.