

Teekay Petrojarl Floating Production UK Limited

Annual report and financial statements

Registered Number 2436350

31 December 2018

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Strategic report

The directors present their strategic report for the year ended 31 December 2018.

Principal activities and review of businesses

The Company's principal activities during the year were the business of FPSO vessel operations of Petrojarl Banff for Canadian Natural Resources (CNR).

	2018 \$000	2017 \$000	Variance %
Turnover	108,620	84,454	29
Operating profit	29,875	6,619	351
Profit before taxation	30,000	6,663	350
Shareholders' funds/(deficit)	23,197	(6,348)	465

Company turnover has increased from the prior year primarily due to a change in contract structure where the Company takes more reservoir and OPEX risks. The increase in operating profit and profit before taxation is a result of the increased oil tariff in the last five months of the year and an increase in reimbursable projects, combined with an overall low increase in costs.

Principal risks and uncertainties

The Company is exposed to financial risks arising from its operations. In addition to the reservoir and OPEX risks, the key financial risks include foreign currency risk, credit risk and liquidity risk.

The following sections provide details regarding the Company's exposure to the above mentioned financial risks and the objectives, policies and processes of the management of these risks.

Foreign currency risk

The Company has transactional currency exposures arising from costs that are denominated in a currency other than USD. The foreign currencies in which these transactions are denominated are mainly GBP and NOK.

Credit risk

Credit risk is the risk of loss that may arise on outstanding financial instruments should a counterparty default on its obligations. The Company's exposure to credit risk arises primarily from trade and other receivables and is concentrated mainly in the outstanding amount owing from multinational integrated oil companies. The credit risk exposure on these balances is considered moderately low.

Liquidity risk

Liquidity risk is the risk that the company will encounter difficulty meeting the financial obligations due to shortage of funds. The Company monitors its liquidity risk and maintains a level of cash and cash equivalents deemed adequate to finance the Company's operations and to mitigate the effects of fluctuations in cash flows.

Strategic report (continued)

Business environment

The UK market for FPSO's is a competitive market with a few specialised vendors for operations in a harsh environment. The customers are the operators and owners of the oil field licenses. The Company meets competition from other third party vendors and from the operators and owners of the oil field as they can choose to own and run a FPSO themselves.

Future Development

The Company has a contract with CNR for the operation of the FPSO Petrojarl Banff on the Banff and Kyle Field. In May 2019 the contract was further extended to the end of August 2020. The customer is now evaluating additional infill drilling opportunities for the field which would create further extension opportunity for the FPSO contract.

In September 2017 a Master Service Agreement was signed to transfer the Company's share capital from its immediate parent undertaking, Teekay Petrojarl Production AS, to another group entity, TPO AS as of 1 January 2018. The transaction is a result of Brookfield Business Partners L.P. not acquiring FPSO Petrojarl Banff.

Going concern

The parent company supports and guarantees the financial performance of the Company. The Company has historically incurred losses, but is now in a more stable financial position. Based on this the directors have a reasonable expectation that the Company will have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and these financial statements.

By order of the Board



T Bye-Andersen
Director
Date: 24 October 2019

2nd floor,
86 Jermyn Street,
London SW1Y 6JD,
United Kingdom

Annual report

The directors present their annual report and financial statements for the year ended 31 December 2018.

Results and dividends

The Company recorded a profit after taxation of \$29,545,000 (2017 - profit after taxation of \$6,663,000).

The directors propose that no dividend be paid (2017 - \$nil).

Directors

The directors who held office during the year and to the date of this report were the following:

T. Bye-Andersen
C. Brett
S. Helland

Financial instruments

The Company's policy is to minimise the use of complex financial instruments.

Charitable and political contributions

The Company made no charitable donations or political contributions during the current or prior year.

Disclosure of information to auditor

The directors who held office at the date of approval of this annual 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.

Other information

An indication of likely future developments in the business and particulars of significant events which have occurred since the end of the financial year have been included in the strategic report on page 2.

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



T Bye-Andersen

Director

Date: 24 October 2019

2nd floor,
86 Jermyn Street,
London SW1Y 6JD,
United Kingdom

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF [THE STRATEGIC REPORT, THE DIRECTORS' REPORT AND THE FINANCIAL STATEMENTS]

The directors are responsible for preparing the strategic report, the annual 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.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF TEEKAY PETROJARL FLOATING PRODUCTION UK LIMITED

Opinion

We have audited the financial statements of Teekay Petrojarl Floating Production UK Limited ("the company") for the year ended 31 December 2018 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 2018 and of its profit 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.

The impact of uncertainties due to the UK exiting the European Union on our audit

Uncertainties related to the effects of Brexit are relevant to understanding our audit of the financial statements. All audits assess and challenge the reasonableness of estimates made by the directors, such as deferred tax asset recognition, provisions for abandonment costs, fixed asset useful life and fair value, and related disclosures and the appropriateness of the going concern basis of preparation of the financial statements. All of these depend on assessments of the future economic environment and the company's future prospects and performance.

Brexit is one of the most significant economic events for the UK, and at the date of this report its effects are subject to unprecedented levels of uncertainty of outcomes, with the full range of possible effects unknown. We applied a standardised firm-wide approach in response to that uncertainty when assessing the company's future prospects and performance. However, no audit should be expected to predict the unknowable factors or all possible future implications for a company and this is particularly the case in relation to Brexit.

Going concern

The directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the company or to cease its operations, and as they have concluded that the company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over its ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least a year from the date of approval of the financial statements. In our evaluation of the directors' conclusions, we considered the inherent risks to the company's business model, including the impact of Brexit, and analysed how those risks might affect the company's financial resources or ability to continue operations over the going concern period. We have nothing to report in these respects.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the company will continue in operation.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF TEEKAY PETROJARL FLOATING PRODUCTION UK LIMITED (CONTINUED)

Strategic report and directors' report

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

Our responsibility is to read the strategic report and 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 strategic report and the directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

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.

We have nothing to report in these respects.

Directors' responsibilities

As explained more fully in their statement set out on page 4, 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.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF TEEKAY PETROJARL FLOATING PRODUCTION UK LIMITED (CONTINUED)

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.



Katie Morrison (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
319 St Vincent Street
Glasgow
G2 5AS

29 October 2019

Profit and loss account

for the year ended 31 December 2018

	Notes	2018 \$000	2017 \$000
Turnover	2	108,620	84,454
Cost of sales		(77,690)	(75,978)
Gross profit		30,930	8,476
Administrative expenses	3	(1,055)	(1,857)
Operating profit		29,875	6,619
Interest receivable and similar income	6	125	44
Profit before taxation		30,000	6,663
Tax charge on profit	7	(455)	-
Profit for the financial year		29,545	6,663

The activities of the Company relate entirely to continuing operations.

The Company has no items of other comprehensive income other than the results for the current and prior financial years as set out above.

Notes on pages 11 to 22 form part of the financial statements.


Balance sheet

as at 31 December 2018

	Notes	2018 \$000	2018 \$000	2017 \$000	2017 \$000
Fixed assets					
Tangible assets	8		2,388		2,439
Debtors:					
amounts falling due after more than one year	10		8,394		8,903
Net non-current assets			<u>10,782</u>		<u>11,342</u>
Current assets					
Stocks	9			425	
Debtors:					
amounts falling due within one year	10	51,339		22,258	
Cash at bank and in hand		<u>824</u>		<u>4,574</u>	
		52,163		27,257	
Creditors: amounts falling due within one year	11	<u>(8,905)</u>		<u>(12,236)</u>	
Net current assets			<u>43,258</u>		<u>15,021</u>
Total assets less current liabilities			54,040		26,363
Provisions for liabilities and charges					
Other provisions	12		<u>(30,843)</u>		<u>(32,711)</u>
Net assets/(liabilities)			<u>23,197</u>		<u>(6,348)</u>
Capital and reserves					
Called up share capital	13		409,442		409,442
Profit and loss account			<u>(386,245)</u>		<u>(415,790)</u>
Shareholders' funds/(deficit)			<u>23,197</u>		<u>(6,348)</u>

Notes on pages 11 to 22 form part of the financial statements.

These financial statements were approved by the board of directors on 24 October 2019 and are signed on their behalf by:


T Bye-Andersen
Director

Company registered number: 2436350

Statement of changes in equity

	<i>Called up Share capital</i>	<i>Profit and Loss account</i>	<i>Total Equity</i>
	<i>\$000</i>	<i>\$000</i>	<i>\$000</i>
Balance as at 1 January 2017	409,442	(422,453)	(13,011)
Total comprehensive income for the period			
Profit for the financial year	-	6,663	6,663
Total comprehensive income for the period	-	6,663	6,663
Balance at 31 December 2017	409,442	(415,790)	(6,348)

	<i>Called up Share capital</i>	<i>Profit and Loss account</i>	<i>Total Equity</i>
	<i>\$000</i>	<i>\$000</i>	<i>\$000</i>
Balance as at 1 January 2018	409,442	(415,790)	(6,348)
Total comprehensive income for the period			
Profit for the financial year	-	29,545	29,545
Total comprehensive income for the period	-	29,545	29,545
Balance at 31 December 2018	409,442	(386,245)	23,197

Notes on pages 11 to 22 form part of the financial statements.

Notes to the financial statements

1 Accounting policies

Teekay Petrojarl Floating Production UK Limited (the "Company") is a company limited by shares and incorporated and domiciled in the UK. The registered office of this company is 2nd Floor, 86 Jermyn Street, London, United Kingdom, SW1Y 6JD.

These financial statements were prepared in accordance with Financial Reporting Standard 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland ("FRS 102"). The presentation currency of these financial statements is USD.

The Company is a wholly owned subsidiary of TPO AS, which is incorporated in Norway. The ultimate parent undertaking and parent undertaking of the largest group of undertakings for which group accounts are drawn up and of which the Company is a member is Teekay Corporation, which is incorporated in the Republic of the Marshall Islands.

The consolidated financial statements of Teekay Corporation are available to the public and may be obtained from 4th Floor, Belvedere Building, 69 Pitts Bay Road, Hamilton, HM 08 Bermuda.

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:

- Reconciliation of the number of shares outstanding from the beginning to end of the period;
- Cash Flow Statement and related notes; and
- Key Management Personnel compensation.

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 18.

1.1 Measurement convention

The financial statements are prepared on the historical cost basis and in accordance with applicable accounting standards.

1.2 Going concern

The financial statements have been prepared on the going concern basis, which the directors believe to be appropriate for the following reasons. The directors have prepared a going concern assessment for a period of 14 months from the date of approval of these financial statements which indicate that, taking account of reasonably possible downside scenarios, the company will have sufficient funds, through the sources described below, to meet its liabilities as they fall due for that period.

As detailed on page 2, the contract with CNR is currently scheduled to end in August 2020. Based on contract negotiations to date, the directors have no reason to believe that this contract will not be renegotiated. In the unlikely event that the contract is not renegotiated, there would be a period of exit from the contract lasting into 2021 to decommission the unit. Should a decommissioning exercise commence, the ultimate parent company has indicated its intention to make available such funds as are needed by the company for the decommissioning works. The directors acknowledge that there can be no certainty that this support will be made available when needed, although, at the date of approval of these financial statements, they have no reason to believe that it will not do so.

Consequently, the directors are confident that activity will continue for at least 12 months from the date of approval of these financial statements, therefore they have prepared the financial statements on a going concern basis.

Notes (continued)

1 Accounting policies (continued)

1.3 Foreign currency

Transactions in foreign currencies are translated to the Company's functional currency at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are retranslated to the functional currency at the foreign exchange rate ruling at that date. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are retranslated to the functional currency at foreign exchange rates ruling at the dates the fair value was determined. Foreign exchange differences arising on translation are recognised in the profit and loss account.

1.4 Tangible fixed assets

Tangible fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses.

Where parts of an item of tangible fixed assets have different useful lives, they are accounted for as separate items of tangible fixed assets.

The Company assesses at each reporting date whether tangible fixed assets (including those leased under a finance lease) are impaired.

Depreciation is charged to the profit and loss account on a straight-line basis over the estimated useful lives of each part of an item of tangible fixed assets. The estimated useful lives are as follows:

Floating production vessel	3-20 years
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Depreciation methods, useful lives and residual values are reviewed if there is an indication of a significant change since last annual reporting date in the pattern by which the Company expects to consume an asset's future economic benefits.

1.5 Expenses

Operating lease

Payments (excluding costs for services and insurance) made under operating leases are recognised in the profit and loss account on a straight-line basis over the term of the lease unless the payments to the lessor are structured to increase in line with expected general inflation; in which case the payments related to the structured increases are recognised as incurred. Lease incentives received are recognised in profit and loss over the term of the lease as an integral part of the total lease expense.

Interest receivable and Interest payable

Interest payable and similar charges including net foreign exchange losses are recognised in the profit and loss account.

Other interest receivable and similar income include interest receivable on funds invested and net foreign exchange gains.

Interest income and interest payable are recognised in profit or loss as they accrue. Dividend income is recognised in the profit and loss account on the date the Company's right to receive payments is established. Foreign currency gains and losses are reported on a net basis.

Notes (continued)

1 Accounting policies (continued)

1.6 Turnover

Tariff-based revenue from services from the operation of floating production, storage and offloading vessels (FPSOs) is recognised as production occurs, while day-rate revenue is recognized over the passage of time.

1.7 Stock

Stocks are stated at the lower of cost and estimated selling price less costs to complete and sell. Cost is based on the first-in first-out principle and includes expenditure incurred in acquiring the stocks, production or conversion costs and other costs in bringing them to their existing location and condition.

1.8 Taxation

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the profit and loss account except to the extent that it relates to items recognised directly in equity or other comprehensive income, in which case it is recognised directly in equity or other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred taxation is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay more, or right to pay less or to receive more, tax, with following exceptions:

- Deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.
- Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

1.9 Non-derivative financial instruments

Non-derivative financial instruments comprise trade and other debtors, cash and cash equivalents, and trade and other creditors.

Trade debtors

Trade and other debtors are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any impairments losses.

Trade creditors

Trade and other creditors are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method.

Notes (continued)

1 Accounting policies (continued)

1.10 Provisions

Provisions are recognised when:

- the Company has an obligation at the reporting date as a result of a past event;
- it is probable that the Company will be required to transfer economic benefits in settlement; and
- the amount of the obligation can be estimated reliably.

Initial recognition of the provision is measured at the best estimate of the amount required to settle the obligation at the reporting date. Subsequent to the initial recognition the provision is reviewed at each reporting date and adjusted to reflect the current best estimate of the amount that would be required to settle the obligation at that reporting date. When a provision is measured at the present value of the amount expected to be required to settle the obligation, the unwinding of the discount is recognised as a finance cost in the profit or loss account in the period it arises.

2 Turnover

	2018 \$000	2017 \$000
Dayrate and operation of FPSO	<u>108,620</u>	<u>84,454</u>

All turnover generated in both the current and prior year was done so in the United Kingdom.

3 Expenses and auditor's remuneration

Operating profit is stated after charging/(crediting):	2018 \$000	2017 \$000
Operating lease rentals – bareboat lease	31,456	26,030
Auditor's remuneration – audit services	16	13
Exchange (gain)/loss	(2,674)	4,036
Compensation from operator for abandonment costs	(10)	(152)
Depreciation	51	433
Impairment of FPSO hull	-	3,736

4 Directors' emoluments

The current year management charges of \$5,395,402 (2017: \$5,764,735) in respect of Production Support Service fees have been made by Teekay Petrojarl Production AS and Teekay Petrojarl UK Ltd, and includes the directors' remuneration which is not possible to identify separately.

Notes (continued)

5 Staff costs

The Company employed no staff during the current and previous years.

6 Interest receivable and similar income

	2018 \$000	2017 \$000
Bank interest	<u>125</u>	<u>44</u>

7.a Taxation

Total tax expense recognised in the profit and loss account, is as follows:

	2018 \$000	2017 \$000
Total current and deferred tax charge	<u>455</u>	<u>-</u>

Notes (continued)

7.b Reconciliation effective tax rate

Factors affecting the tax charge for the current year

The current tax charge for the year is lower (2017: lower) than the standard rate of corporation tax in the UK, 19.00 % (2017: 19.25 %). The differences are explained below:

	2018 \$000	2017 \$000
Profit for the year	29,545	6,663
Total tax charge	455	-
Profit before taxation	<u>30,000</u>	<u>6,663</u>
Current tax at 19.00 % (2017: 19.25 %)	5,700	1,282
Unrecognised deferred tax	(4,349)	(280)
Effects of group relief/other reliefs	(895)	(1,002)
Total tax charge included in profit (note 7.a)	<u>455</u>	<u>-</u>

A reduction in the UK corporation tax rate from 20 % to 19 % (effective from 1 April 2017) and to 18 % (effective 1 April 2020) were substantively enacted on 26 October 2015, and an additional reduction to 17 % (effective 1 April 2020) was substantively enacted on 6 September 2016. This will reduce the Company's future current tax charge accordingly. The unrecognized deferred tax asset has been calculated using the 17 % rate.

7.c Factors affecting current tax charge

The company has carried forward tax losses and other timing differences as shown below that are available to be offset against future profits.

	2018 \$000	2017 \$000
Depreciation in advance of capital allowances	9,299	12,765
Other timing differences	3,816	4,523
Unrelieved tax losses	<u>37,601</u>	<u>43,745</u>
	<u>50,716</u>	<u>61,033</u>

Deferred tax assets have not been recognised in relation to these losses and other timing differences as they do not satisfy the recognition criteria for deferred tax assets. These assets would be realised if sufficient taxable profits were to be generated in the future against which the losses and other timing differences could be offset.

Notes (continued)

8 Tangible fixed assets

	Floating production vessel \$000
Cost at 1 January 2018 and 31 December 2018	25,470
Accumulated depreciation and impairment:	
At 1 January 2018	23,031
Depreciation	51
At 31 December 2018	23,082
Net book value:	
At 31 December 2018	2,388
At 31 December 2017	2,439

Notes (continued)

9 Stock

	2018 \$000	2017 \$000
Bunker oil	-	425

10 Debtors

	2018 \$000	2017 \$000
Amounts falling due within one year are:		
Trade debtors	8,758	7,880
Amounts owed by group undertakings	41,457	5,438
VAT recoverable	133	69
Prepayments and accrued income	991	8,871
	<u>51,339</u>	<u>22,258</u>

Amounts falling due after more than one year are:

	2018 \$000	2017 \$000
Amounts recoverable on contracts (note 12)	<u>8,394</u>	<u>8,903</u>

Balances due from group undertakings are repayable on demand. No interest is charged on these amounts.

11 Creditors: amounts falling due within one year

	2018 \$000	2017 \$000
Trade creditors	4,323	941
Amounts owed to group undertakings	455	3,605
Accruals and deferred income	3,902	7,690
Corporation tax	225	-
	<u>8,905</u>	<u>12,236</u>

Balances due to group undertakings are repayable on demand. No interest is charged on these amounts.

Notes (continued)

12 Provisions for liabilities and charges

	Abandonment provision \$000
At 1 January 2018	32,711
Unwinding of discount	35
Exchange gain	(1,903)
At 31 December 2018	30,843

Provisions for abandonment costs

In accordance with the contract between the Company and CNR, the Company recognised an asset removal obligation. Subsequent to the initial recognition of the asset removal obligation, a finance cost is recorded relating to the unwinding of the discount (the obligation increases in each period due to the passage of time) on the asset retirement obligation. The estimated future costs of removal are reviewed annually and adjusted as appropriate.

The agreement between the company and CNR states that the Company is responsible for the removal of the subsea equipment and for cleaning up the seabed in accordance with the abandonment approval to be granted by the UK Department of Trade and Industry, unless CNR exercises its option to acquire the subsea equipment. If CNR does not exercise the option to acquire the subsea equipment, compensation will be paid to the Company. As such, the Company recognises a receivable from CNR for the estimated abandonment work.

As at 31 December 2018, the earned refund from CNR for the abandonment work is estimated to be \$8,394,000 (\$8,903,000 in 2017). The receivable from CNR is accounted for separately as a receivable falling due after more than one year. The change in refund from CNR from 2017 to 2018 is included in cost of sales as income of \$528,000 - including FX loss of \$518,000 (2017: income of \$926,000 - including FX gain of \$774,000).

Notes (continued)

13 Called up share capital

	2018 \$000	2017 \$000
<i>Allotted, called up and fully paid</i>		
251,038,096 ordinary shares of £1 each	<u>409,442</u>	<u>409,442</u>

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. During the year the Company issued no additional shares.

14 Operating lease commitments

Non-cancellable operating lease rentals are payable as follows:

	<i>Vessels on bareboat charter contracts</i>	
	2018 \$000	2017 \$000
Within one year	31,456	31,456
In two to five years	<u>62,911</u>	<u>94,367</u>
	<u>94,367</u>	<u>125,823</u>

The lease for Apollo Spirit is calculated to the end of 2020. This will change if the contract for the FPSO is terminated with a different end date.

During the year \$31,455,700 was recognised as an expense in the profit and loss account in respect of operating leases (2017: \$26,030,414).

Notes (continued)

15 Related parties

	<i>Sales to</i>		<i>Expenses incurred from</i>	
	2018	2017	2018	2017
	\$000	\$000	\$000	\$000
Teekay Petrojarl Production AS	-	-	-	(4,311)
Transactions with subsidiaries within the Teekay group	-	-	-	(27,484)
	<u>-</u>	<u>-</u>	<u>-</u>	<u>(31,795)</u>
	<i>Receivables outstanding</i>		<i>Creditors outstanding</i>	
	2018	2017	2018	2017
	\$000	\$000	\$000	\$000
Teekay Petrojarl Production AS	-	896	-	-
Transactions with subsidiaries within the Teekay group	41,457	4,542	(455)	(3,605)
	<u>41,457</u>	<u>5,438</u>	<u>(455)</u>	<u>(3,605)</u>

16 Ultimate parent company

The Company is a subsidiary undertaking of Teekay Corporation which is the ultimate parent company incorporated in the Republic of the Marshall Islands.

The largest group in which the results of the Company are consolidated as at 31 December 2018 is that headed by Teekay Corporation, incorporated in the Republic of the Marshall Islands. No other group financial statements include the results of the Company. The consolidated financial statements of this group are available to the public and may be obtained from their offices located at 4th Floor Belvedere Building, 69 Pitts Bay Road, Hamilton, HM 08 Bermuda.

17 Subsequent events

There were no material subsequent events after the balance sheet date.

18 Accounting estimates and judgements

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods.

The accounting policies set out in note 1 have been applied consistently throughout the periods presented in these financial statements. The key areas in the financial statements of estimates and judgements are deferred tax asset recognition, provisions for abandonment costs and fixed assets in regards to useful life and fair value. This area is judgemental as recognition of the tax asset is dependent on future taxable results in the company. Management has examined budgets and plans for the coming periods when assessing the estimates. With regard to the provision for abandonment costs, management consider and assess the appropriateness of the existing provision recorded in the financial statements on an annual basis. This includes consultation with technical personnel as to whether any revisions are required to the provision based on management's best estimate of the costs that will be incurred at a future date. Management also assess if the current estimated useful life and fair value of the fixed assets are appropriate when preparing the financial statements.