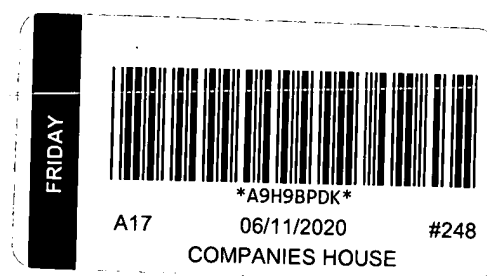


**Desire Petroleum Limited**

**Annual report and financial statements**

**Registered number: 3168611**

**31 December 2019**



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## **Directors' report**

### **Principal activities and review of business**

The principal activity of the Company is the evaluation and exploitation of its oil exploration licences on its acreage in the North Falkland Basin. The Company holds a 40% interest in the PI004a, PI004b and PI004c licenses.

The loss for the year before taxation amounted to US\$nil (2018: \$1,000 loss). Work on conceptual studies has continued in the year examining potential development schemes for the resources in the Company's acreage in the north of PL004.

This business review should be read in conjunction with the Strategic Report which appears in the report and accounts of Rockhopper Exploration plc, the ultimate parent undertaking and its subsidiaries (together the "Group"), and give a full description of the Group's activities and development during the period. Copies of the Group's report and accounts are available on the Group's website at [www.rockhopperexploration.co.uk](http://www.rockhopperexploration.co.uk). Risks and uncertainties facing the Group are detailed in the Group's report in the Risk management report in the Strategic report and note 31.

### **Post Balance Sheet Events**

After the period end, a decision was made to write off the historic exploration costs associated with the resources which will not be developed as part of the Sea Lion Phase 1 project including amounts in relation to the Company's licenses. Hence post year end the entire Intangible fixed asset balance as disclosed in Note 4 of \$97.7million has been impaired.

This impairment has no impact on the Group's long-term strategy for multiple phases of development in the North Falkland Basin but instead reflects the limited capital which will be invested outside of the Phase 1 project in the near-term. A reversal of the impairment is expected once the Phase 1 project has been sanctioned and investment resumes on the Phase 2 project.

### **Going concern**

Notwithstanding net current liabilities of US\$4.3 million (2018: US\$4.2 million) as at 31 December 2019, the financial statements have been prepared on a going concern basis which the Directors consider to be appropriate for the following reasons.

The Directors have prepared cash flow forecasts for a period of 12 months from the date of approval of these financial statements which indicate that, taking account of reasonably possible downsides, the Company will have sufficient funds, through funding from its immediate parent company, Rockhopper Exploration plc, to meet its liabilities as they fall due for that period.

Those forecasts are dependent on Rockhopper Exploration plc providing additional financial support during that period. Rockhopper Exploration plc has indicated its intention to continue to make available such funds as are needed by the Company for the period covered by the forecasts. As with any Company placing reliance on other group entities for financial support, the Directors acknowledge that there can be no certainty that this support will continue although, at the date of approval of these financial statements, they have no reason to believe that it will not do so.

The Group's publicly condensed consolidated interim financial statements released on 15 September 2020 do state that under the Group's base case forecast, the Group will have sufficient financial headroom to meet forecast cash requirements for the next 12 months including the expected costs of the Company.

However, in a possible downside scenario, in the absence of any mitigating actions, the Group may have insufficient funds to meet its forecast cash requirements. Potential mitigating actions, some of which are outside the Group's control, could include collection of arbitration award proceeds, deferral of expenditure or raising additional equity. In this circumstance it may be that the group cannot continue to support the Company.

Accordingly, after making enquiries and considering the risks described above, the Directors have assessed that the cash balance held provides the Group and hence the Company with adequate headroom over forecasted expenditure for the following 12 months - as a result, the Directors have adopted the going concern basis of accounting in preparing these financial statements. Nonetheless, for the avoidance of doubt, in the Group downside scenario run and in the absence of potential mitigating actions, a material uncertainty exists that may cast significant doubt on the Company's

ability to continue as a going concern. The financial statements do not include any adjustments that may be necessary if the Company were not a going concern.

#### **Proposed dividend**

The Directors do not recommend the payment of a dividend (2018: US \$nil).

#### **Directors**

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

- Stewart MacDonald
- Samuel Moody

The Company has entered into separate indemnity deeds with each Director containing qualifying indemnity provisions, as defined at section 236 of the Companies Act 2006, under which the Company has agreed to indemnify them, in respect of certain liabilities, which may attach to them as a Director or as a former Director of the Company. At the date of this Directors' Report indemnity deeds containing qualifying indemnity provisions are in force for all the Company's Directors.

#### **Political contributions**

The Company made no political donations or incurred any disclosable political expenditure during the year.

#### **Statement of directors' responsibilities**

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 International Financial Reporting Standards (IFRSs) as adopted by the European Union and applicable law, including FRS 101 Reduced Disclosure Framework.

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 IFRSs as adopted by the EU 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.

This report has been prepared taking advantage of the exemptions for small companies within Part 15 of the Companies Act 2006.

This report was approved by the board on 21 October 2020 and signed on its behalf.

**Stewart MacDonald**  
Chief Financial Officer



Warner House,  
123 Castle Street,  
Salisbury, Wilts  
SP1 3TB

## **Profit and Loss Account and Other Comprehensive Income**

*for year ended 31 December 2019*

		Year ended 31 Dec 19	Year ended 31 Dec 18
	Notes	\$'000	\$'000
Foreign exchange movement		-	(1)
Loss before tax		-	(1)
Tax	3	-	-
<b>LOSS FOR THE YEAR ATTRIBUTABLE TO THE EQUITY SHAREHOLDERS OF THE PARENT COMPANY</b>		-	(1)

	Year ended 31 Dec 19	Year ended 31 Dec 18
	\$'000	\$'000
Loss for the year	-	(1)
Other comprehensive income for the year	-	-
<b>TOTAL COMPREHENSIVE LOSS FOR THE PERIOD</b>	-	(1)

The accompanying notes on pages 6 to 11 form an integral part of the financial statements

**Balance Sheet**  
*at 31 December 2019*

	Notes	31 Dec 2019 \$'000	31 Dec 2018 \$'000
<b>NON CURRENT ASSETS</b>			
Intangible assets	4	97,713	97,582
<b>TOTAL ASSETS</b>		<b>97,713</b>	<b>97,582</b>
<b>CURRENT LIABILITIES</b>			
Other payables	5	4,343	4,212
<b>TOTAL LIABILITIES</b>		<b>4,343</b>	<b>4,212</b>
<b>EQUITY</b>			
Share capital	6	6,406	6,406
Share premium		228,939	228,939
Retained losses		(141,975)	(141,975)
<b>ATTRIBUTABLE TO THE EQUITY SHAREHOLDERS OF THE COMPANY</b>		<b>93,370</b>	<b>93,370</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>97,713</b>	<b>97,582</b>

For the financial year ended 31 December 2019, the company was entitled to exemption from audit under the Companies Act 2006, s. 477 relating to small companies and the members have not required the company to obtain an audit of its accounts for the year in question in accordance with s. 476. The directors acknowledge their responsibilities for complying with the requirements of the Companies Act 2006 with respect to accounting records and the preparation of accounts.

These financial statements were approved by the board of directors on 21 October 2020 and were signed on its behalf by:



**Stewart MacDonald**  
*Chief Financial Officer*

Company registered number: 3168611

**Statement of Changes in Equity**

	Share capital \$'000	Share premium \$'000	Retained losses \$'000	Total Equity \$'000
<b>Balance at 01 January 2018</b>	<b>6,406</b>	<b>228,939</b>	<b>(141,974)</b>	<b>93,371</b>
Total comprehensive loss for the year	-	-	(1)	(1)
<b>Balance at 31 December 2018</b>	<b>6,406</b>	<b>228,939</b>	<b>(141,975)</b>	<b>93,370</b>
Total comprehensive loss for the year	-	-	-	-
<b>Balance at 31 December 2019</b>	<b>6,406</b>	<b>228,939</b>	<b>(141,975)</b>	<b>93,370</b>

The accompanying notes on pages 6 to 11 form an integral part of the financial statements

## Notes

*(forming part of the financial statements)*

### 1 Accounting policies

Desire Petroleum Limited (the “Company”) is a private limited company incorporated and domiciled in the UK. The registered office of the Company is 123 Warner House, Salisbury, SP1 3TB.

These financial statements were prepared in accordance with Financial Reporting Standard 101 *Reduced Disclosure Framework* (“FRS 101”). There are no amendments to accounting standards or IFRIC interpretations that are effective for the year ended 31 December 2019 that have had a material impact on the company’s financial statements.

In preparing these financial statements, the Company applies the recognition, measurement and disclosure requirements of International Financial Reporting Standards as adopted by the EU (“Adopted IFRSs”), but makes amendments where necessary in order to comply with Companies Act 2006 and has set out below where advantage of the FRS 101 disclosure exemptions has been taken.

The Company’s ultimate parent undertaking, Rockhopper Exploration plc includes the Company in its consolidated financial statements. The consolidated financial statements of Rockhopper Exploration plc are prepared in accordance with International Financial Reporting Standards and are available to the public and may be obtained from the Group’s website [www.rockhopperexploration.co.uk](http://www.rockhopperexploration.co.uk).

In these financial statements, the Company has applied the exemptions available under FRS 101 in respect of the following disclosures:

- a Cash Flow Statement and related notes;
- Comparative period reconciliations for share capital, and intangible assets;
- Disclosures in respect of capital management;
- The effects of new but not yet effective IFRSs;
- An additional balance sheet for the beginning of the earliest comparative period following the retrospective change in accounting policy; and
- Disclosures in respect of the compensation of Key Management Personnel.

As the consolidated financial statements of ultimate parent undertaking include the equivalent disclosures, the Company has also taken the exemptions under FRS 101 available in respect of the following disclosures:

- Certain disclosures required by IAS 36 *Impairment of assets* in respect of the impairment of indefinite life intangible assets;
- Certain disclosures required by IFRS 13 *Fair Value Measurement* and the disclosures required by IFRS 7 *Financial Instrument Disclosures*

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements. The Company proposes to continue to adopt the reduced disclosure framework of FRS101 in its next 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 2.

## Notes (continued)

### 1 Accounting policies (continued)

#### 1.1 Measurement convention

The results upon which these financial statements have been based were prepared using the accounting policies set out below. These policies have been consistently applied unless otherwise stated.

These financial statements have been prepared under the historical cost convention except, as set out in the accounting policies below, where certain items are included at fair value.

All values are rounded to the nearest thousand dollars (\$'000) or thousand pounds (£'000), except when otherwise indicated.

#### 1.2 Going concern

Notwithstanding net current liabilities of US\$4.3 million (2018: US\$4.2 million) as at 31 December 2019, the financial statements have been prepared on a going concern basis which the Directors consider to be appropriate for the following reasons.

The Directors have prepared cash flow forecasts for a period of 12 months from the date of approval of these financial statements which indicate that, taking account of reasonably possible downsides, the Company will have sufficient funds, through funding from its immediate parent company, Rockhopper Exploration plc, to meet its liabilities as they fall due for that period.

Those forecasts are dependent on Rockhopper Exploration plc providing additional financial support during that period. Rockhopper Exploration plc has indicated its intention to continue to make available such funds as are needed by the Company for the period covered by the forecasts. As with any Company placing reliance on other group entities for financial support, the Directors acknowledge that there can be no certainty that this support will continue although, at the date of approval of these financial statements, they have no reason to believe that it will not do so.

The Group's publicly condensed consolidated interim financial statements released on 15 September 2020 do state that under the Group's base case forecast, the Group will have sufficient financial headroom to meet forecast cash requirements for the next 12 months including the expected costs of the Company.

However, in a possible downside scenario, in the absence of any mitigating actions, the Group may have insufficient funds to meet its forecast cash requirements. Potential mitigating actions, some of which are outside the Group's control, could include collection of arbitration award proceeds, deferral of expenditure or raising additional equity. In this circumstance it may be that the group cannot continue to support the Company.

Accordingly, after making enquiries and considering the risks described above, the Directors have assessed that the cash balance held provides the Group and hence the Company with adequate headroom over forecasted expenditure for the following 12 months - as a result, the Directors have adopted the going concern basis of accounting in preparing these financial statements. Nonetheless, for the avoidance of doubt, in the Group downside scenario run and in the absence of potential mitigating actions, a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. The financial statements do not include any adjustments that may be necessary if the Company were not a going concern

#### 1.3 Foreign currency

The functional and presentation currency of the Company is US\$.

Transactions denominated in foreign currencies are translated at the exchange rate ruling at the transaction date. Monetary assets and liabilities denominated in foreign currencies are translated into dollars at the exchange rates ruling at the balance sheet date and any differences thereon are included in the income statement.

The period end rates of exchange actually used were:

	31 Dec 2019	31 Dec 2018
£ : US\$	1.32	1.28
€ : US\$	1.12	1.15



## Notes (continued)

### 1 Accounting policies (continued)

#### 1.4 Non-derivative financial instruments

Financial assets and financial liabilities are recognised on the Company's balance sheet when the Company has become a party to the contractual provisions of the instrument.

##### (i) Financial liabilities and equity

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities.

##### (ii) Trade payables

Trade payables are initially recognised at fair value and subsequently at amortised cost using the effective interest method.

##### (iii) Equity instruments

Equity instruments issued by the company are recorded at the proceeds received, net of direct issue costs.

#### 1.5 Intangible assets

##### Oil and gas assets

The Company applies the successful efforts method of accounting for exploration and evaluation ("E&E") costs, having regard to the requirements of IFRS6 – 'Exploration for and evaluation of mineral resources'.

##### Exploration and evaluation ("E&E") expenditure

###### Expensed exploration & evaluation costs

Expenditure on costs incurred prior to obtaining the legal rights to explore an area, geological and geophysical costs are expensed immediately to the income statement.

###### Capitalised intangible exploration and evaluation assets

All directly attributable E&E costs are initially capitalised in well, field, prospect, or other specific, cost pools as appropriate, pending determination.

###### Treatment of intangible E&E assets at conclusion of appraisal activities

Intangible E&E assets related to each cost pool are carried forward until the existence, or otherwise, of commercial reserves have been determined, subject to certain limitations including review for indications of impairment. If commercial reserves have been discovered, the carrying value, after any impairment loss, of the relevant E&E assets, are then reclassified as development and production assets within property plant and equipment. However, if commercial reserves have not been found, the capitalised costs are charged to expense.

The Company's definition of commercial reserves for such purpose is proved and probable reserves on an entitlement basis. Proved and probable reserves are the estimated quantities of crude oil, natural gas and natural gas liquids which geological, geophysical and engineering data demonstrate with a specified degree of certainty (see below) to be recoverable in future years from known reservoirs and which are considered commercially producible.

Such reserves may be considered commercially producible if management has the intention of developing and producing them and such intention is based upon:

- a reasonable assessment of the future economics of such production;
- a reasonable expectation that there is a market for all or substantially all the expected hydrocarbon production;
- evidence that the necessary production, transmission and transportation facilities are available or can be made available; and
- the making of a final investment decision.

## Notes (continued)

### 1 Accounting policies (continued)

#### 1.5 Intangible assets (continued)

Furthermore:

- (i) Reserves may only be considered proved and probable if producibility is supported by either actual production or a conclusive formation test. The area of reservoir considered proved includes: (a) that portion delineated by drilling and defined by gas-oil and/or oil-water contacts, if any, or both; and (b) the immediately adjoining portions not yet drilled, but which can be reasonably judged as economically productive on the basis of available geophysical, geological and engineering data. In the absence of information on fluid contacts, the lowest known structural occurrence of hydrocarbons controls the lower proved limit of the reservoir.
- (ii) Reserves which can be produced economically through application of improved recovery techniques (such as fluid injection) are only included in the proved and probable classification when successful testing by a pilot project, the operation of an installed programme in the reservoir, or other reasonable evidence (such as, experience of the same techniques on similar reservoirs or reservoir simulation studies) provides support for the engineering analysis on which the project or programme was based.

#### 1.6 Taxation

The current tax expense is based on the taxable profits for the period, after any adjustments in respect of prior years. Tax, including tax relief for losses if applicable, is allocated over profits before tax and amounts charged or credited to reserves as appropriate.

Deferred taxation is recognised in respect of all taxable temporary differences that have originated but not reversed at the balance sheet date where a transaction or events have occurred at that date that will result in an obligation to pay more, or a right to pay less or to receive more, tax, with the exception that deferred tax assets are recognised only to the extent that the directors consider that it is probable that there will be suitable taxable profits from which the future reversal of the underlying temporary 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 temporary differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

### 2 Use of estimates, assumptions and judgements

The group makes estimates, assumptions and judgements that affect the reported amounts of assets and liabilities. Estimates, assumptions and judgements are continually evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet 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 discussed below.

#### Carrying value of intangible exploration and evaluation assets (note 4);

The amounts for intangible exploration and evaluation assets represent active exploration and evaluation projects. These amounts will be written off to the income statement as exploration costs unless commercial reserves are established or the determination process is not completed and there are indications of impairment in accordance with the Group's accounting policy.

In addition for assets under evaluation where discoveries have been made, such as Sea Lion, and property plant and equipment assets, their carrying value is checked by reference to impairment models which requires key assumptions and estimates in relation to: commodity prices that are based on forward curves for a number of years and the long-term corporate economic assumptions thereafter, discount rates that are adjusted to reflect risks specific to individual assets, the quantum of commercial reserves and the associated production and cost profiles. Future development costs are estimated taking into account the level of development required to produce the reserves by reference to operators, where applicable, and internal engineers.

## Notes (continued)

### 3 Taxation

#### a. Reconciliation of the total tax charge

	Year ended 31 Dec 19 \$'000	Year ended 31 Dec 18 \$'000
Tax on profit on ordinary activities		
Loss on ordinary activities before tax	-	(1)
Loss on ordinary activities multiplied at 26% weighted average rate (31 December 2018: 26%)	-	-
Effects of:		
Losses carried forward	-	-
Tax charge for the year	-	-

#### b. Factors that may affect future tax charges

The Company is carrying forward an amount of tax-deductible expenditure. Total tax allowances available to claim in future periods in respect of pre-trading capital expenditure for which a deferred tax asset has not been recognised are \$200 million (2018: \$200 million). Pre trading non capital expenditure expires after seven years and allowances available to claim in respect of future periods for which a deferred tax has not been recognised are \$5 million (2018: \$7 million).

Deferred tax assets have not been recognised in respect of these items because at this point in the Company's development it is uncertain that future taxable profits will be available against which the Company can utilise the benefits of the tax losses.

#### Pre trading expenditure

Financial year	Expire year	\$'000
2013	2020	3,000
2014	2021	1,432
2015	2022	711
2017	2024	6

### 4 Intangible assets

	31 Dec 19 \$'000	31 Dec 18 \$'000
Brought forward	97,492	97,492
Additions	131	90
Carried forward	97,713	97,582

Work on conceptual studies has continued in the year to examine potential development schemes for the resources in the Company's acreage in the north of PL004. Post year end a decision was made, in line with the operator, to write off exploration costs associated with the licenses as they will not be developed as part of the Sea Lion Phase 1 project. Additional disclosure is provided in Note 13.

### 5 Other payables

	31 Dec 19 \$'000	31 Dec 18 \$'000
Amounts due to ultimate parent undertaking	4,343	4,212
	4,343	4,212

The amounts due to the immediate parent company are unsecured, interest free and repayable on demand.

## Notes (continued)

### 6 Share capital

	31 Dec 2019		31 Dec 2018	
	\$	Number	\$	Number
Authorised, called up, issued and fully paid: Ordinary shares of £0.01 each.	6,406	342,282,198	6,406	342,282,198

### 7 Salaries and directors' remuneration

During the period there were no employees and therefore no staff costs.

The Directors are also Directors of Rockhopper Exploration plc, the ultimate parent undertaking. During the period the directors received emoluments through Rockhopper Exploration plc but it is not practicable to allocate this between their services as Directors of the above named company and other group companies. The Directors work is spread across the range of companies within the Group and it can be expected that typically within any given year between 5-10 per cent of their time would be allocated to Desire Petroleum Limited. Details of emoluments received by the Directors for their services to the Group are disclosed in the accounts of Rockhopper Exploration plc.

### 8 Financial commitments

Significant capital expenditure contracted for at the end of the reporting period but not recognised as liabilities is US\$0.1 million (2019: US\$0.2 million) relating to the Group's intangible exploration and evaluation assets.

### 9 Post Balance Sheet Events

After the period end, a decision was made to write off the historic exploration costs associated with the resources which will not be developed as part of the Sea Lion Phase 1 project including amounts in relation to the Company's licenses. Hence post year end the entire Intangible fixed asset balance as disclosed in Note 4 of \$97.7million has been impaired.

This impairment has no impact on the Group's long-term strategy for multiple phases of development in the North Falkland Basin but instead reflects the limited capital which will be invested outside of the Phase 1 project in the near-term. A reversal of the impairment is expected once the Phase 1 project has been sanctioned and investment resumes on the Phase 2 project.