Desire Petroleum Limited

Annual report and financial statements
Registered number: 3168611
31 December 2018

Contents

Directors' report

Principal activity 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 loss for the year before taxation amounted to $1,000 (2017: $6,000).

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.

Risks and uncertainties facing the Group are detailed in the Group's report in the Risk management report in the Strategic report and note 30.

Proposed dividend

The Directors do not recommend the payment of a dividend (2017: US $nil).

Directors

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

S MacDonald
S J 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.

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/she ought to have taken as a director to make himself/herself aware of any relevant audit information and to establish that the company's auditor is aware of that information.

Auditor

Following the conclusion of a formal tender process, the Directors have approved the proposed appointment of PricewaterhouseCoopers as the Company's auditor for the financial year commencing 1 January 2019.

By order of the Board

S. MacDonald

Stewart MacDonald
Chief Financial Officer

4th Floor, 5 Welbeck Street
London
W1G 9YQ

Date: 17 June 2019

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 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.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF DESIRE PETROLEUM LIMITED

Opinion

We have audited the financial statements of Desire Petroleum Limited ("the company") for the year ended 31 December 2018 which comprise the Profit and Loss Account and Other Comprehensive Income, the Balance Sheet, the Statement of Changes in Equity and the 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 loss for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the EU, including FRS 101 *Reduced Disclosure Framework*; 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.

Going concern

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 twelve months from the date of approval of the financial statements. We have nothing to report in these respects.

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.

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.

Lynton Richmond

Lynton Richmond **(Senior Statutory Auditor)**
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants

15 Canada Square
London
E14 5GL

19th **June 2019**

Profit and Loss Account and Other Comprehensive Income

for year ended 31 December 2018

	Notes	**Year ended 31 Dec 18 $'000**	Year ended 31 Dec 17 $'000
Foreign exchange movement		**(1)**	(6)
Loss before tax		**(1)**	(6)
Tax	3	**-**	-
LOSS FOR THE YEAR ATTRIBUTABLE TO THE EQUITY SHAREHOLDERS OF THE PARENT COMPANY		**(1)**	(6)

	Year ended 31 Dec 18 $'000	Year ended 31 Dec 17 $'000
Loss for the year	**(1)**	(6)
Other comprehensive income for the year	**-**	-
TOTAL COMPREHENSIVE LOSS FOR THE PERIOD	**(1)**	(6)

The accompanying notes on pages 7 to 13 form an integral part of the financial statements

Balance Sheet
at 31 December 2018

	Notes	**31 Dec 2018 $'000**	31 Dec 2017 $'000
NON CURRENT ASSETS			
Intangible assets	4	**97,582**	97,492
CURRENT ASSETS			
Other receivables	5	**-**	21,670
TOTAL ASSETS		**97,582**	119,162
CURRENT LIABILITIES			
Other payables	6	**4,212**	25,791
TOTAL LIABILITIES		**4,212**	25,791
EQUITY			
Share capital	7	**6,406**	6,406
Share premium		**228,939**	228,939
Retained losses		**(141,975)**	(141,974)
ATTRIBUTABLE TO THE EQUITY SHAREHOLDERS OF THE COMPANY		**93,370**	93,371
TOTAL LIABILITIES AND EQUITY		**97,582**	119,162

These financial statements were approved by the board of directors on 17 June 2019 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**
Balance at 31 December 2016	6,406	228,939	(141,968)	93,377
Total comprehensive loss for the year	-	-	(6)	(6)
Balance at 31 December 2017	**6,406**	**228,939**	**(141,974)**	**93,371**
Total comprehensive loss for the year	-	-	(1)	(1)
Balance at 31 December 2018	**6,406**	**228,939**	**(141,975)**	**93,370**

The accompanying notes on pages 7 to 13 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 company incorporated and domiciled in the UK.

These financial statements were prepared in accordance with Financial Reporting Standard 101 *Reduced Disclosure Framework ("FRS 101").* The amendments to FRS 101 (2014/15 Cycle) issued in July 2015 and effective immediately have been applied.

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.

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$4.2 million as at 31 December 2018, and a loss for the year then ended of $1,000 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 not seeking repayment of the amounts currently due to the Group, which at 31 December 2018 amounted to US$4.2 million, and 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, and that it does not intend to seek repayment of the amounts due at the balance sheet date, 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.

Consequently, the Directors are confident that the Company will have sufficient funds to continue to meet its liabilities as they fall due for at least 12 months from the date of approval of the financial statements and therefore have prepared the financial statements on a going concern basis.

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 2018	31 Dec 2017
£ : US$	1.28	1.35
€ : US$	1.15	1.20

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.

Development and production assets

Development and production assets, classified within property, plant and equipment, are accumulated generally on a field-by-field basis and represent the costs of developing the commercial reserves discovered and bringing them into production, together with the E&E expenditures incurred in finding commercial reserves transferred from intangible E&E assets.

Depreciation of producing assets

The net book values of producing assets are depreciated generally on a field-by-field basis using the unit-of-production method by reference to the ratio of production in the year and the related commercial reserves of the field, taking into account the future development expenditure necessary to bring those reserves into production.

Disposals

Net cash proceeds from any disposal of an intangible E&E asset are initially credited against the previously capitalised costs. Any surplus proceeds are credited to the profit and loss account.

Decommissioning

Provision for decommissioning is recognised in full when the related facilities are installed. The amount recognised is the present value of the estimated future expenditure. A corresponding amount equivalent to the provision is also also recognised as part of the cost of the related oil and gas property. This is subsequently depreciated as part of the capital costs of the production facilities. Any change in the present value of the estimated expenditure is dealt with prospectively as an adjustment to the provision and the oil and gas property. The unwinding of the discount is included in finance cost.

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.

Notes *(continued)*

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 5);

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.

3 Taxation

a. Reconciliation of the total tax charge

	Year ended 31 Dec 18 $'000	Year ended 31 Dec 17 **$'000**
Tax on profit on ordinary activities		
Loss on ordinary activities before tax	(1)	(6)
Loss on ordinary activities multiplied at 26% weighted average rate (31 December 2017: 26%)	-	(2)
Effects of:		
Losses carried forward	-	2
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 (2017: $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 $7 million (2017: $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
2012	2019	2,037
2013	2020	3,000
2014	2021	1,432
2015	2022	711
2017	2024	6

Notes *(continued)*

4 Intangible assets

	Total
	$'000
As at 31 December 2016	97,507
Accrual release	(15)
As at 31 December 2017	**97,492**
Additions	90
As at 31 December 2018	**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.

5 Other receivables

	31 Dec 2018	31 Dec 2017
	$'000	$'000
Amounts due from joint venture partners	-	22
Amounts due from ultimate parent undertaking	-	21,648
	-	21,670

6 Other payables

	31 Dec 18	**31 Dec 17**
	$'000	**$'000**
Amounts due to immediate parent undertaking	-	25,791
Amounts due to ultimate parent undertaking	**4,212**	-
	4,212	25,791

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

7 Share capital

	31 Dec 2018		31 Dec 2017	
	$	**Number**	$	Number
Called up, issued and fully paid: Ordinary shares of £0.01 each	**6,406**	**342,282,198**	6,406	342,282,198

Notes *(continued)*

8 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.

9 Auditor's Remuneration

	31 Dec 18	31 Dec 17
	$'000	$'000
Audit of these financial statements	**10**	7

The auditor's remuneration costs for services provided to the Company were borne entirely by the ultimate parent undertaking, Rockhopper Exploration plc.

10 Financial commitments

Capital commitments represent the Company's share of expected costs in relation to its interests in joint ventures, net of any carry arrangements that are in force.

Capital commitments at 31 December 2018 were $0.2 million (2017: $0.2 million). These represent commitments which are part of the normal operational activity and will be in incurred in 2019.