

Registered number: 05457589

IGas Energy Enterprise Limited

Annual Report and Unaudited Financial Statements
for the year ended 31 December 2020



IGas Energy Enterprise Limited

Company information

Ultimate parent undertaking	IGas Energy plc
Directors	S D Bowler J L Tedder (resigned 31 July 2020) T Perera Schuetze F Ward (appointed 31 July 2020)
Registered number	05457589
Registered office	Welton Gathering Centre Barfield Lane Off Wragby Road Sudbrooke Lincoln England LN2 2QX
Bankers	Barclays Bank Plc 1 Churchill Place London E14 5HP

Copies of Annual Report and Unaudited Financial Statements

Further copies of this Annual Report and Unaudited Financial Statements can be obtained from IGas Energy Enterprise Limited's Registered Office.

Directors' report

Registered number: 05457589

The Directors present their report and unaudited financial statements of IGas Energy Enterprise Limited (the "Company") for the year ended 31 December 2020.

Directors of the company

The Directors of the Company who were in office during the year and up to the date of signing the financial statements are shown on Page 1.

Dividends

The Directors do not recommend the payment of a dividend.

Principal activities and future developments

The principal activity of the Company is to explore for, develop and produce oil and gas reserves and resources in Great Britain.

The Company plans to invest in and optimise its producing assets which is primarily the PL240 licence. It also continues to advance the project at Lybster, looking to monetise associated gas, alongside oil production. Discussions continue with a number of entities to evaluate the off-take options for this gas via CNG or otherwise, and with various regulatory bodies to identify the conditions that must be satisfied in order to restart oil production. During 2020, the Lybster well remained shut-in while the various site upgrades were being reviewed.

Basis of preparation

This report has been prepared in accordance with the special provisions relating to small companies within Part 15 of the Companies Act 2006.

The Directors have also taken advantage of the small companies' exemptions provided by section 414B of the Companies Act 2006 and have not prepared a strategic report.

Financial instruments

The Company finances its activities with a combination of intercompany loans and cash. Intercompany advances are used to satisfy short term cash flow requirements. Other financial assets and liabilities, such as other receivables, trade and other payables and cash and cash equivalents, arise directly from the Company's operating activities.

The Company manages its exposure to key financial risks in accordance with its financial risk management policy. The objective of the policy is to support the Company's financial targets while protecting future financial security. The Company is exposed to the following risks:

- Market risk, including commodity price, foreign currency and interest rate risks;
- Credit risk; and
- Liquidity risk.

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices, such as commodity price risk, foreign currency risk and interest rate risk. The Company is exposed to the risk of fluctuations in prevailing market commodity prices (primarily crude oil) on the oil and gas products it sells. The Company considers that such risks are mitigated by the IGas Energy plc Group's (the "Group") hedging policy. The Company is exposed to exchange rate risk through its major source of revenue being priced in US\$ whereas its costs are

Directors' report (continued)

Registered number: 05457589

Financial instruments (continued)

primarily denominated in Pounds Sterling. The Group's board monitors the cash flows to ensure currency exposure is understood and considers exchange rate hedges as appropriate to ensure that cash inflows in dollars are matched with sterling cash outflows.

The exposure to credit risk from credit sales is not considered significant given the small number of well-established credit customers and zero historic default rate. The Company trades only with recognised, creditworthy third parties. It is the Company's policy to assess the credit risk of new customers before entering contracts. Under this policy, each new customer is analysed individually for creditworthiness before the Company's standard payment and delivery terms and conditions are offered. The Company's review includes external credit reference agencies checks, when available, and in some cases bank and trade references.

The Company manages liquidity risk by maintaining adequate banking and borrowing facilities by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities and future capital and operating commitments. External borrowing facilities are managed by the parent company.

Events since the balance sheet date

On 4 February 2021, the Company's registered office changed from 7 Down Street, London, W1J 7AJ to Welton Gathering Centre, Barfield Lane Off Wragby Road, Sudbrooke, Lincoln, LN2 2QX.

Directors' liabilities

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

The Company indemnifies the Directors against actions they undertake or fail to undertake as Directors or officers of any Group company, to the extent permissible for such indemnities to meet the test of a qualifying third party indemnity provision as provided for by Section 234 of the Companies Act 2006. The nature and extent of the indemnities is as described in Article 53 of the Company's Articles of Association as adopted on 11 September 2019. These provisions remained in force throughout the year and remain in place at the date of this report.

Audit exemption

For the year ended 31 December 2020, the Company was entitled to exemption from audit under section 479A of the Companies Act 2006 relating to subsidiary companies.

Directors' responsibilities:

- the members have not required the Company to obtain an audit of its accounts for the year in question in accordance with section 476 of the Companies Act 2006; and
- 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.

On behalf of the Board

Frances Ward

F Ward
29 September 2021

Directors' report (continued)

Registered number: 05457589

Statement of directors' responsibilities in respect of the financial statements

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law). Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing the financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable United Kingdom Accounting Standards, comprising FRS 101, have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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.

Frances Ward

F Ward
Director
29 September 2021

IGas Energy Enterprise Limited

Income statement
For the year ended 31 December 2020

	Note	Year ended 31 December 2020 £000	Year ended 31 December 2019 £000
Revenue	3	3,587	6,925
Cost of sales		(3,846)	(2,866)
Gross (loss)/profit		(259)	4,059
Administrative expenses		(330)	(133)
Exploration and evaluation assets written-off	10	(37)	(90)
Impairment of tangible assets	9	(3,993)	(5,089)
Operating loss	4	(4,619)	(1,253)
Interest payable and similar expenses	7	(1,024)	(992)
Loss before tax		(5,643)	(2,245)
Income tax credit/(charge)	8	5,253	(728)
Loss for the year		(390)	(2,973)

All transactions in current and previous year are derived from continuing activities.

Statement of comprehensive income
For the year ended 31 December 2020

	Year ended 31 December 2020 £000	Year ended 31 December 2019 £000
Loss for the year	(390)	(2,973)
Total comprehensive loss for the year	(390)	(2,973)

The notes on pages 8 to 24 are an integral part of these financial statements.

Statement of financial position
At 31 December 2020

	Note	31 December 2020 £000	31 December 2019 £000
Non-current assets			
Property, plant and equipment	9	16,214	21,387
Intangible exploration and evaluation assets	10	164	-
Right-of-use assets	11	291	333
Deferred tax asset	8	6,154	901
		22,823	22,621
Current assets			
Inventories	12	66	54
Other receivables	13	19,977	17,433
Cash and cash equivalents		18	3
		20,061	17,490
Current liabilities			
Creditors: amounts falling due within one year	14	(52,210)	(49,089)
Lease liability	11	(13)	(30)
Net current liabilities		(32,162)	(31,629)
Total assets less current liabilities		(9,339)	(9,008)
Non-current liabilities			
Other provisions	15	(2,892)	(2,810)
Lease liability	11	(263)	(286)
Net liabilities		(12,494)	(12,104)
Capital and reserves			
Called up share capital	16	3,306	3,306
Share premium account		26,545	26,545
Accumulated deficit		(42,345)	(41,955)
Total shareholders' deficit		(12,494)	(12,104)

The notes on pages 8 to 24 are an integral part of these financial statements.

Audit exemption

For the year ended 31 December 2020, the Company was entitled to exemption from audit under Section 479A of the Companies Act 2006 relating to subsidiary companies. The members have not required the Company to obtain an audit of its accounts for the year in question in accordance with section 476. The Directors acknowledge their responsibilities for complying with the requirements of the Act with respect to accounting records and the preparation of accounts.

The financial statements on page 5 to 24 were approved and authorised for issue by the Board on 29 September 2021 and are signed on its behalf by:

Frances Ward

F Ward
Director

IGas Energy Enterprise Limited

Statement of changes in equity
For the year ended 31 December 2020

	Called up share capital (note 16) £000	Share premium account £000	Accumulated deficit £000	Total shareholders' deficit £000
At 1 January 2019	3,306	26,545	(38,982)	(9,131)
Total comprehensive loss for the year	-	-	(2,973)	(2,973)
At 31 December 2019	3,306	26,545	(41,955)	(12,104)
Total comprehensive loss for the year	-	-	(390)	(390)
At 31 December 2020	3,306	26,545	(42,345)	(12,494)

The notes on pages 8 to 24 are an integral part of these financial statements.

Notes to the financial statements

For the year ended 31 December 2020

1. General information

The financial statements of IGas Energy Enterprise Limited (the "Company") for the year ended 31 December 2020 were approved by the Board and authorised for issue on 29 September 2021.

The Company is a private company limited by share capital incorporated in England and domiciled in the United Kingdom.

On 4 February 2021, the Company's registered office changed from 7 Down Street, London, W1J 7AJ to Welton Gathering Centre, Barfield Lane Off Wragby Road, Sudbrooke, Lincoln, LN2 2QX.

2. Accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated.

2.1 Basis of preparation

The Company is a qualifying entity for the purposes of FRS 101. Note 19 gives details of the Company's ultimate parent undertaking and from where its consolidated financial statements prepared in accordance with IFRS may be obtained.

These financial statements have been prepared in accordance with Financial Reporting Standard 101, 'Reduced Disclosure Framework' (FRS 101) and the Companies Act 2006 (the Act) as applicable to companies using FRS 101. FRS 101 sets out a reduced disclosure framework for a 'qualifying entity' as defined in the standard which addresses the financial reporting requirements and disclosure exemptions in the individual financial statements of qualifying entities that otherwise apply the recognition, measurement and disclosure requirements of EU-adopted IFRS.

The financial statements are prepared in accordance with the historical cost convention and have been prepared on the going concern basis.

The Company's financial statements are presented in Pounds Sterling.

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

- the requirements of IFRS 7 Financial Instruments: Disclosures;
- the requirements of paragraphs 91-99 of IFRS 13 Fair Value Measurement;
- the requirement in paragraph 38 of IAS 1 Presentation of Financial Statements to present comparative information in respect of paragraph 79(a)(iv) of IAS 1;
- the requirements of paragraphs 10(d), 10(f), 39(c) and 134-136 of IAS 1 Presentation of Financial Statements;
- the requirements of IAS 7 Statement of Cash Flows;
- the requirements of paragraph 17 of IAS 24 Related Party Disclosures;
- the requirements in IAS 24 Related Party Disclosures to disclose related party transactions entered into between two or more members of a Group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member;
- the requirements of paragraphs 134(d)-134(f) and 135(c)-135(e) of IAS 36 Impairment of Assets; and
- the requirement of paragraph 30 and 31 of IAS 8 Accounting policies, changes in accounting estimates and errors, requirement for the disclosure of information when an entity has not applied a new IFRS that has been issued but is not yet effective.

Notes to the financial statements (continued)

For the year ended 31 December 2020

2. Accounting policies (continued)

2.1. Basis of preparation (continued)

Going concern

The Company is reliant on the continued financial support of its ultimate parent undertaking, IGas Energy plc ("IGas"). The Directors therefore considered the going concern assessment prepared in respect of the unaudited condensed interim consolidated financial statements of IGas for the six months ended 30 June 2021, approved on 22 September 2021, which included disclosure of the following information in respect of the IGas Group's ability to continue as a going concern:

"The Group continues to closely monitor and manage its liquidity risks. Cash flow forecasts for the Group are regularly produced based on, inter alia, the Group's production and expenditure forecasts, management's best estimate of future oil prices, management's best estimate of foreign exchange rates and the Group's available loan facility under the RBL. Sensitivities are run to reflect different scenarios including, but not limited to, possible further reductions in commodity prices, strengthening of sterling and reductions in forecast oil and gas production rates.

The Group's operating cash flows have improved in 2021 as a result of improving commodity prices and we have successfully completed the 2021 half-year redetermination. However, the ability of the Group to operate as a going concern is dependent upon the continued availability of future cash flows and the availability of the monies drawn under its RBL, which is redetermined semi-annually based on various parameters (including oil price and level of reserves) and is also dependent on the Group not breaching its RBL covenants. To mitigate these risks, the Group benefits from its hedging policy with 190,800 bbls hedged for H2 2021 at an average price including collar upside of c.\$49/bbl, 126,000 bbls are currently hedged in 2022 using swaps at an average price of \$63/bbl and 114,000 bbls using puts with an average price, net of premiums, of \$44/bbl.

The international efforts to curtail the COVID-19 pandemic, particularly the increasing vaccination roll-outs has created an improving macroeconomic outlook. The combination of the recovery in oil demand and OPEC+ decision on production levels has resulted in higher oil prices which have increased from c.\$54/bbl at the beginning of the year to above \$70/bbl in June 2021. Although the oil price has recovered sharply, there remains significant uncertainty as to how COVID-19 and its aftermath will impact economies, oil demand and therefore oil price over the near and mid-term.

Management has also considered the impact of the COVID-19 global crisis on the Group's operations. We have seen some impact on production during 2021 due to supply chain constraints and the need for members of our staff to self-isolate. We continue to monitor the situation closely and act within Government guidelines and have a number of contingency plans in place should our operations be significantly affected by the COVID-19 pandemic. Many of our sites are remotely manned and we are well equipped as a business to ensure we maintain business continuity recognising that our production comes from a large number of wells in a variety of locations and we have flexibility in our off-take arrangements. We continue to liaise and co-operate with all the relevant regulators on guidance relating to the pandemic.

The Group's base case cash flow forecast was run with average oil prices of \$68/bbl for Q4 2021 falling to an average of \$63/bbl in 2022 based on the forward curve. A foreign exchange rate of \$1.39/£1 for Q4 2021 and \$1.38/£1 for 2022 was used. Our forecasts show that the Group will have sufficient financial headroom to meet its financial covenants based on the existing RBL facility. However, given the uncertainties described above, the level of Group revenues and the availability of facilities under the RBL are inherently uncertain. As such, management has also prepared a downside case with average oil prices at \$58/bbl for Q4 2021 falling to an average of \$50/bbl in 2022 and an exchange rate of \$1.40/£1.00 for Q4 2021 and \$1.42/£1.00 for 2022. Our downside case also included an average reduction in production of 5% over the period. To manage the impact of the downside scenario modelled, management would take mitigating actions, including further commodity hedging, delaying capital expenditure and additional reductions in costs in order to remain within the Group's debt liquidity covenants. All such mitigating actions are within management's control. In the downside case, management has also considered additional cash generating opportunities for the Group. While management acknowledges that these may not be in our control, we have assumed that cash flow from some of these opportunities would be available in 2022. In this downside scenario, our forecast shows that the Group will have

Notes to the financial statements (continued)

For the year ended 31 December 2020

2. Accounting policies (continued)

2.1. Basis of preparation (continued)

Going concern (continued)

sufficient financial headroom to meet its financial covenants for the 12 months from the date of approval of the financial statements. However, should oil price or demand (and therefore revenue) fall further, the Group may not have sufficient funds available for 12 months from the date of approval of these financial statements.

As a result, at the date of approval of these interim financial statements, there continues to be material uncertainties, as described above, arising as a result of the potential impact of COVID-19 on the Group's operational activities and future commodity prices. These material uncertainties cast significant doubt upon the Group's ability to continue as a going concern. Notwithstanding these material uncertainties, the Directors have a reasonable expectation that the Group has adequate resources to continue in existence for the foreseeable future and have concluded it is appropriate to adopt the going concern basis of accounting in the preparation of the interim financial statements. The interim financial statements do not include the adjustments that would result if the Group was unable to continue as a going concern."

2.2. New and amended standards and interpretations

New and amended IFRS Standards that are effective for the current year

During the year, the Group adopted the following new and amended IFRSs for the first time for their reporting period commencing 1 January 2020:

Amendments to IFRS 3	Definition of a Business
Amendments to IAS 1 and IAS 8	Definition of Material
Amendments to IFRS 9, IAS 39 and IFRS 7	Interest Rate Benchmark Reform
IFRS 2, IFRS 3, IFRS 6, IFRS 14, IAS 1, IAS 8, IAS 34, IAS 37, IAS 38, IFRIC 12, IFRIC 19, IFRIC 20, IFRIC 22, and SIC-32	Amendments to References to the Conceptual Framework in IFRS Standards

The adoption of these standards does not have a material impact on the Company in the current or future reporting periods.

2.3. Judgements and key sources of estimation uncertainty

The preparation of the Company's financial statements in accordance with FRS 101 requires management to make judgements and estimates that affect the reported amounts of assets and liabilities and the disclosure of contingent liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Estimates and assumptions are continuously evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. However, actual outcomes can differ from these estimates.

In particular, the Company has identified the following areas where significant judgements and estimates are required, and where if actual results were to differ, this could materially affect the financial position or financial results reported in future periods. Further information on each of these and how they impact the various accounting policies are described in the relevant notes to the financial statements.

Notes to the financial statements (continued)

For the year ended 31 December 2020

2. Accounting policies (continued)

2.3. Judgements and key sources of estimation uncertainty (continued)

Estimates:

Carrying value of property, plant and equipment

Management reviews the Company's property, plant and equipment at least annually for impairment indicators. The determination of recoverable amounts in any resulting impairment test requires judgement around key assumptions. Key assumptions in the impairment models include those related to GBP to US dollar foreign exchange rates and prices that are based on forward curves and long-term corporate assumptions thereafter, discount rates, that are risked to reflect conditions specific to individual assets, future costs, both capital and operating that are based on management's estimates having regard to past experience and the known characteristics of the individual assets, reserves and future production, discussed further below. Details of the Company's property, plant, and equipment are disclosed in note 9.

Proved and probable reserves

The volume of proved and probable oil and gas reserves is an estimate that affects the unit of production depreciation of producing oil and gas property, plant and equipment as well as being a significant estimate affecting decommissioning provisions, impairment calculations and the valuation of oil and gas properties in business combinations. Proved and probable reserves are estimated using standard recognised evaluation techniques. Estimates are reviewed at least annually and are regularly estimated by independent consultants. 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.

Decommissioning costs

The estimated cost of decommissioning at the end of the producing lives of fields is reviewed periodically and is based on forecast price levels and technology at the balance sheet date. Provision is made for the estimated cost at the balance sheet date, using a discounted cash flow methodology and a risk free rate of return. Details of the Company's decommissioning costs are disclosed in note 15.

Deferred tax asset recognition

Deferred tax assets are recognised for unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and the level of future taxable profits together with future tax planning strategies. Estimates of future taxable profits are based on cash flows expected to be generated from internal estimates of projected production and costs. Details of the Company's deferred tax assets, including those not recognised due to uncertainty regarding the future utilisation, are disclosed in note 8.

Judgement:

Interest rate implicit in the lease

Since the interest rate implicit in the lease cannot be readily determined, the lessee's incremental borrowing rate is used. The incremental borrowing rate (IBR) applicable for all of the leases for the Company is between 7.5% and 8.5%. While there is no definitive guidance in IFRS 16 on how to determine an IBR, the Company uses rates built up from 3 components as follows:

- a) Risk free rate – a treasury bond rate or an interest swap rate in the local currency for the country of the lease, which reflects the duration of the lease;
- b) Credit spread specific to the lessee;
- c) Asset/lease specific adjustments to reflect the nature of the collateral

Notes to the financial statements (continued)

For the year ended 31 December 2020

2. Accounting policies (continued)

2.3. Judgements and key sources of estimation uncertainty (continued)

Judgement (continued):

Interest rate implicit in the lease(continued)

The determination of whether there is an interest rate implicit in the lease, the calculation of the Company's incremental borrowing rate, and whether any adjustments to this rate are required, involves some judgement and is subject to change over time. At the commencement date of leases management consider whether the lease term will be the full term of the lease or whether any option to break or extend the lease is likely to be exercised. Leases are regularly reviewed and will be revalued if the term is likely to change.

2.4. Significant accounting policies

(a) Revenue

Revenue comprises the invoiced value of goods and services supplied by the Company, net of value added tax and trade discounts. Revenue is recognised at a point in time when the control of the goods has passed onto the customer and there is no unfilled performance obligation that could affect the customer's acceptance of the goods. In the case of oil and electricity sales, these are recognised when goods are delivered and title has passed to the customer. This generally occurs when the product is physically delivered to the customer's premises or transferred into a vessel, pipe or other delivery mechanism.

Estimates of revenues, costs or extent of progress toward completion are revised if circumstances change. Any resulting increases or decreases in estimated revenues or costs are reflected in profit or loss in the period in which the circumstances that give rise to the revision become known by management. In the case of fixed-price contracts, the customer pays the fixed amount based on a payment schedule. If the invoiced value of goods or services rendered exceed the payment, a contract asset will be recognised. If the payments exceed the invoiced value of goods or services rendered, a contract liability will be recognised.

(b) Non-current assets

Intangible exploration and evaluation assets

The Company accounts for exploration and evaluation costs in accordance with the requirements of IFRS 6 "Exploration for and Evaluation of Mineral Resources" as follows:

- Any costs incurred prior to obtaining the legal rights to explore an area are expensed immediately to the Income Statement. Expenditures related to development and production activities are not recognised as exploration and evaluation assets;
- Expenditures recognised as exploration and evaluation assets comprise those related to acquisition of rights to explore, topographical, geological, geochemical and geophysical studies, exploratory drilling (including coring and sampling), activities in relation to evaluating the technical feasibility and commercial viability of extracting hydrocarbons (including appraisal drilling and production tests) and any land rights acquired for the sole purpose of effecting these activities. These costs include employee remuneration and directly attributable overheads, materials and consumables, equipment costs and payments made to contractors;
- Tangible assets acquired for use in exploration and evaluation activities are classified as property, plant and equipment. However, to the extent that such tangible assets are consumed in developing an intangible exploration and evaluation asset, the amount reflecting that consumption is recorded as part of the exploration and evaluation asset;
- Expenditures recognised as exploration and evaluation assets are initially accumulated and capitalised by reference to appropriate geographic areas;

Notes to the financial statements (continued)

For the year ended 31 December 2020

2. Accounting policies (continued)

2.4. Significant accounting policies (continued)

(b) Non-current assets (continued)

Intangible exploration and evaluation assets (continued)

- Exploration and evaluation assets are carried at cost less any impairment and are not depreciated or amortised; and
- Expenditure recognised as exploration and evaluation assets are transferred to property plant and equipment, interests in oil and gas properties when technical feasibility and commercial viability of extracting hydrocarbons is demonstrable. Exploration and evaluation assets are assessed for impairment (on the basis described below), and any impairment loss recognised, before reclassification.

Impairment testing of exploration and evaluation assets

Expenditures recognised as exploration and evaluation assets are tested for impairment whenever facts and circumstances suggest that they may be impaired, which includes when a licence is approaching the end of its term and is not expected to be renewed, when there are no substantive plans for continued exploration or evaluation of an area, when the Company decides to abandon an area, or whilst development is likely to proceed in an area there are indications that the exploration and evaluation asset costs are unlikely to be recovered in full either by development or through sale.

Property plant and equipment – interests in oil and gas properties

Property plant and equipment, interests in oil and gas properties are accounted for as follows:

- Oil and gas properties and other property, plant and equipment are stated at cost, less accumulated depreciation and accumulated impairment losses;
- The cost of an asset comprises its purchase price or construction cost, any costs directly attributable to bringing the asset into operation and, for qualifying assets where relevant, borrowing costs. The purchase price or construction cost is the aggregate amount paid and the fair value of any other consideration given to acquire the asset. The cost of oil and gas assets also includes an amount equal to the decommissioning cost estimate. The capitalised value of any associated finance leases is also included within property, plant and equipment;
- When a development project moves into the production stage, the capitalisation of certain construction/development costs ceases, and costs are either regarded as part of the cost of inventory or expensed, except for costs which qualify for capitalisation;
- Oil and gas properties are depleted either on a unit of production basis, commencing at the start of commercial production, or depreciated on a straight line basis over the relevant asset's estimated useful life. Where expenditure is depreciated on a unit of production basis, the depletion charge is calculated according to the proportion that production bears to the recoverable reserves for each property;
- The Company's interests in oil and gas properties are assessed for indications of impairment when events or changes in circumstances indicate that the carrying value of an asset may not be recoverable, in which case impairment is computed on the basis as set out below. Any impairment in value is charged to the Income Statement as additional depreciation; and
- Net proceeds from any disposal of development/producing assets are compared to the previously capitalised costs for the relevant asset. A gain or loss on disposal of a development/producing asset is recognised in the Income Statement to the extent that the net proceeds exceed or are less than the appropriate portion of the net capitalised costs of the asset.

Impairment

Impairment tests are carried out on the following basis:

- By comparing any amounts carried in the books as compared to the recoverable amount;

Notes to the financial statements (continued)

For the year ended 31 December 2020

2. Accounting policies (continued)

2.4. Significant accounting policies (continued)

(c) Non-current assets (continued)

Impairment (continued)

- The recoverable amount of oil and gas properties is the higher of an asset's fair value less costs to sell and its value in use. The Company generally assesses the value in use using the estimated future cash flows discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or cash generating unit ("CGU"); and
- Where there has been a charge for impairment in an earlier period that charge will be reversed in a later period where there has been a change in circumstances to the extent that the recoverable amount is higher than the net book value at the time. In reversing impairment losses, the carrying amount of the asset will be increased to the lower of its original carrying value and the carrying value that would have been determined (net of depletion) had no impairment loss been recognised in prior periods.

Decommissioning

Where a liability for the removal of production facilities or site restoration exists, a provision for decommissioning is recognised. The amount recognised is discounted to its present value and is reflected in the Company's non-current liabilities. A corresponding asset is included in the appropriate category of the Company's non-current assets (intangible exploration and evaluation assets and property plant and equipment), depending on the accounting treatment adopted for the underlying operations/asset leading to the decommissioning provision. The asset is assessed for impairment and depleted in accordance with the Company's policies as set out above.

(c) Financial instruments

Other receivables

Details about the Company's impairment policy and the calculation of loss allowance is provided in the Impairment of financial assets accounting policy below.

Trade and other payables

These financial liabilities are all non-interest bearing and are initially recognised at the fair value of the consideration payable.

Impairment of financial assets

At the end of each reporting period, a provision is made if there is objective evidence that a financial asset or group of financial assets was impaired. A financial asset or a group of financial assets was impaired and impairment loss is incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event"), and that loss event (or events) had an impact on the estimated future cash flows of the financial asset or group of financial assets that could be reliably estimated.

Assets carried at amortised cost

For loans and receivables, the amount of loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that had not been incurred), discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of loss is recognised in the income statement.

If in the subsequent period, the amount of loss decreased and the decrease is related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the income statement.

Notes to the financial statements (continued)

For the year ended 31 December 2020

2. Accounting policies (continued)

2.4. Significant accounting policies (continued)

(c) Financial instruments (continued)

Impairment of financial assets (continued)

Expected credit loss

The Company assesses, on a forward-looking basis, the expected credit losses associated with its debt instruments carried at amortised cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk. For trade receivables, the Company applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognised from initial recognition of receivables.

(d) Leases

The Group assesses whether a contract is or contains a lease, at inception of the contract. The Group recognises a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets. For these leases, the Group recognises the lease payments as an operating expense on a straight-line basis over the term of the lease.

Lease liabilities

The Company recognises lease liabilities measured at the present value of the lease payments to be made over the lease term. Lease payments include fixed payments less any lease incentives receivable and variable lease payments that depend on an index. The Company is exposed to potential future increases in variable lease payments based on an index or rate, which are not included in the lease liability until they take effect. When adjustments to lease payments based on an index or rate take effect, the lease liability is reassessed and adjusted against the right-of-use asset. Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

Right-of-use assets

The Company recognises right-of-use assets at the commencement date of the lease. Right-of-use assets are measured at cost, less accumulated depreciation and impairment losses and adjusted for any re-measurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, adjusted for any lease payments made at or before the commencement date, less any lease incentives received. Right-of-use assets are depreciated over the shorter of the asset's useful life or the lease term on a straight-line basis. Right-of-use assets are subject to and reviewed regularly for impairment. Depreciation on right-of-use assets is included in depletion, depreciation and amortisation within cost of sales or in administrative expense in the income statement based on the nature of the asset.

Extension renewal and termination options

Extension, renewal and termination options are included in a number of land and other equipment leases. In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an option to extend or renew, or not exercise a termination option. Extension and renewal options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated).

The lease term is reassessed if an option is actually exercised (or not exercised) or the Company becomes obliged to exercise (or not exercise) it. The assessment of reasonable certainty is only revised if a significant event or a significant change in circumstances occurs, which affects this assessment, and that is within the control of the lessee.

Amounts recognised in cash flow statement

Lease payments are split between financing cash flows and operating cash flows in the cash flow statement. Financing cash flows represent repayment of principal and interest.

Notes to the financial statements (continued)

For the year ended 31 December 2020

2. Accounting policies (continued)

2.4. Significant accounting policies (continued)

(e) Group loans

Group borrowings are measured initially at fair value. After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the Effective Interest Rate ("EIR") method. Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the EIR amortisation process. When management estimates of the amounts or timings of cash flows are revised, borrowings are re-measured using the revised cash flow estimates under the original effective interest rate with any consequent adjustment being recognised in the Income Statement.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included in finance costs in the income statement.

(f) Inventories

Inventories, consisting of crude oil and drilling and maintenance materials, are stated at the lower of cost and net realisable value. Costs comprise costs of purchase, cost of conversion and other costs incurred in bringing the inventories to their present location and condition. Weighted average cost is used to determine the cost of ordinarily inter-changeable items.

(g) Taxation

The tax charge/credit includes current tax and deferred tax.

Current income tax assets and liabilities are measured at the amount expected to be recovered or paid to the tax authorities. Taxable profit/(loss) differs from the profit/(loss) before taxation as reported in the Income Statement as it excludes items of income or expense that are taxable or deductible in different periods and items that are never taxable or deductible. The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised in respect of all temporary differences that have originated but not reversed at the balance sheet date except when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss. Temporary differences arise from differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax liabilities are not discounted. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered and the carrying amount is reviewed at each reporting date.

Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on the tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax relating to items recognised outside profit or loss is recognised in correlation to the underlying transaction either in other comprehensive income or directly in equity.

(h) Equity

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs, and allocated between called up share capital and share premium accounts as appropriate.

Notes to the financial statements (continued)

For the year ended 31 December 2020

2. Accounting policies (continued)

2.4. Significant accounting policies (continued)

(i) Foreign currency

The financial statements are presented in UK pound sterling, which is the Company's functional currency. Transactions denominated in currencies other than functional currency are translated at the exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are re-translated at the rate of exchange ruling at the balance sheet date. All differences that arise are recorded in the income statement.

3. Revenue

The Company's revenue is generated from oil and electricity sales and is derived solely within the United Kingdom. £3.5 million (2019: 6.7 million) of the Company's revenue was derived from an affiliate.

	Year ended 31 December 2020 £000	Year ended 31 December 2019 £000
Oil sales	3,485	6,704
Electricity sales	102	221
	3,587	6,925

As at 31 December 2020, there are no contract assets or contract liabilities outstanding.

4. Operating loss

Operating loss is stated after charging:

	Year ended 31 December 2020 £000	Year ended 31 December 2019 £000
Depletion, depreciation and amortisation (note 9 and note 11)	(1,748)	(1,636)
Impairment of tangible assets (note 9)	(3,993)	(5,089)

5. Staff costs

The Company does not have any employees (2019: none). A proportion of the IGas Energy plc group staff costs are charged to the income statement or capitalised as additions to intangible exploration and evaluation assets or property plant and equipment of the Group's subsidiaries through the time writing or cost allocation process as appropriate based on activities carried out.

Notes to the financial statements (continued)

For the year ended 31 December 2020

6. Directors' remuneration

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

No management charge has been made by IGas Energy plc or another member of the Group (2019: £nil). No amounts are recharged for Directors' services.

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

7. Interest payable and similar expenses

	Year ended 31 December 2020 £000	Year ended 31 December 2019 £000
Interest expense from amounts owed to group undertakings	(158)	(158)
Unwinding of discount on provisions (note 15)	(84)	(65)
Foreign exchange losses	(752)	(741)
Finance charge on lease liability for assets in use (note 11)	(30)	(28)
Interest payable and similar expenses	(1,024)	(251)

8. Income tax credit/(charge)

Tax credit/(charge) on loss from ordinary activities

	Year ended 31 December 2020 £000	Year ended 31 December 2019 £000
Current tax		
Current income tax for the year	-	-
Deferred tax		
Current year credit/(charge) relating to the origination or reversal of temporary differences	5,253	(952)
Credit in relation to prior periods	-	224
Income tax credit/(charge)	5,253	(728)

Notes to the financial statements (continued)

For the year ended 31 December 2020

8. Income tax credit/(charge) (continued)

Factors affecting the tax credit/(charge)

A reconciliation of the UK statutory corporation tax rate applicable to the Company's loss before tax to the Company's total tax credit/(charge) is as follows:

	Year ended 31 December 2020 £000	Year ended 31 December 2019 £000
Loss before tax	(5,643)	(2,245)
Expected tax credit/(charge) based on profit before tax multiplied by the combined rate of corporation tax and supplementary charge in the UK of 40% (2019: 40%)	2,257	898
Prior year deferred tax credit	-	224
Tax effect of expenses not allowable for tax purposes/ income not taxable.	(9)	(53)
Tax effect of expenses not allowable for supplementary charge purposes	(16)	(16)
Net (increase)/decrease in unrecognised losses carried forward	3,409	(1,855)
Net increase in unrecognised temporary taxable differences	(390)	-
Group relief claimed	2	74
Income tax credit/(charge)	5,253	(728)

Tax losses

The Company has further tax losses of £79 million (2019: £72 million) for which no deferred tax asset has been recognised due to uncertainty regarding the availability of future profits against which the losses can be utilised.

The majority of the Company's losses are generated by "ring fence" businesses which attract UK corporation tax and supplementary charge at a combined average rate of 40%.

Deferred tax

The following is an analysis of the deferred tax asset by category of temporary difference:

	Year ended 31 December 2020 £000	Year ended 31 December 2019 £000
Opening asset at beginning of year	901	1,629
Tax credit/(charge) during the year recognised in the income statement	5,253	(952)
Tax credit relating to prior year	-	224
Deferred tax asset	6,154	901

Notes to the financial statements (continued)

For the year ended 31 December 2020

8. Income tax charge (continued)

	31 December 2020 £000	31 December 2019 £000
Accelerated capital allowances	(999)	(2,606)
Tax losses carried forward	6,111	2,474
Investment allowance unutilised	49	29
Decommissioning provision	999	1,011
Other	(6)	(7)
Deferred tax asset	6,154	901

9. Property, plant and equipment

	31 December 2020			31 December 2019		
	Oil and gas properties £'000	Motor vehicles £'000	Total £'000	Oil and gas properties £'000	Motor vehicles £'000	Total £'000
Cost						
1 January	64,422	9	64,431	63,013	9	63,022
Additions	528	-	528	777	-	777
Disposals	(21)	-	(21)	-	-	-
Changes in decommissioning	(2)	-	(2)	632	-	632
31 December	64,927	9	64,936	64,422	9	64,431

Accumulated depletion, depreciation and impairment

1 January	43,035	9	43,044	36,353	7	36,360
Charge for the year	1,706	-	1,706	1,593	2	1,595
Disposals	(21)	-	(21)	-	-	-
Impairment	3,993	-	3,993	5,089	-	5,089
31 December	48,713	9	48,722	43,035	9	43,044

Net book value

31 December	16,214	-	16,214	21,387	-	21,387
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Notes to the financial statements (continued)

For the year ended 31 December 2020

9. Property, plant and equipment (continued)

Impairment of oil and gas properties

Due to the significant uncertainty as to how COVID-19 and its aftermath would impact economies, oil demand and oil price over the near and mid-term, the Company's oil and gas properties were reviewed for impairment as at 31 December 2020. A cash generating unit ("CGU") for impairment purposes is the legal entity. The impairment assessment was prepared on a fair value less costs of disposal basis and using discounted future cash flows based on 2P reserve profiles. The future cash flows were estimated using price assumption for Brent of \$50-\$55/bbl for the years 2021-2022 and \$60/bbl thereafter (2019: \$60/bbl for the years 2020-2024 and \$70/bbl thereafter), and a USD/GBP foreign exchange rate of \$1.37:£1.00 for 2021 and \$1.35:£1 thereafter (2019: \$1.35/£1.00). Cash flows were discounted using a pre-tax discount rate of 8.3% (2019: 8.5%). An impairment charge of £3.9 million was recognised in the year (2019: £5.1 million).

10. Intangible exploration and evaluation assets

	31 December 2020 £000	31 December 2019 £000
At 1 January	-	92
Additions	201	-
Amounts written-off	(37)	(92)
At 31 December	164	-

Exploration and evaluation assets were reviewed for indicators of impairment at 31 December 2020 and exploration costs of £37,000 (2019: £92,000) were written off during the year.

11. Right-of-use assets and lease liabilities

(a) Amounts recognised in the balance sheet

The Company has identified lease portfolios for land and other equipment as follows:

	31 December 2020 £000	31 December 2019 £000
Right-of-use assets		
Land	288	319
Other equipment	3	14
	291	333

Additions to the right-of-use assets during the 2020 financial year were nil (2019: £10,000). The depreciation charge for the year was £42,000 (2019: £41,000).

	31 December 2020 £000	31 December 2019 £000
Lease liabilities		
Current	(13)	(30)
Non-current	(263)	(286)
	(276)	(316)

Notes to the financial statements (continued)

For the year ended 31 December 2020

11. Right-of-use assets and lease liabilities (continued)

c) Amounts recognised in the income statement

The income statement shows the following amounts relating to leases:

	31 December 2020 £000	31 December 2019 £000
Depreciation charge of right-of-use assets		
Land	(31)	(31)
Other equipment	(11)	(10)
	(42)	(41)
Interest expense (note 7)	(30)	(28)

During the year ended 31 December 2020, the Company had a total cash outflow of £60,000 (2019:86,000) on qualifying leases.

12. Inventories

	31 December 2020 £000	31 December 2019 £000
Oil stock	20	8
Drilling materials	46	46
Total inventories	66	54

The difference between purchase price or production cost of stocks and their replacement cost is not material therefore no provision for impairment has been made.

13. Other receivables

	31 December 2020 £000	31 December 2019 £000
Amounts due from Group undertakings	19,950	17,336
Other debtors	13	19
Prepayments	14	78
Total trade and other receivables	19,977	17,433

Payment terms for balances due from Group undertakings are as mutually agreed between the companies within the Group. The Company does not intend to call on the loan with the counterparty within 12 months from the date of the approval of these financial statements.

Due to the short term nature of the Company's current receivables, their carrying value is considered to be the same as their fair value.

Notes to the financial statements (continued)

For the year ended 31 December 2020

14. Creditors: amounts falling due within one year

	31 December 2020 £000	31 December 2019 £000
Trade creditors	(4)	(54)
Amounts due to Group undertakings	(51,977)	(48,927)
Accruals and deferred income	(229)	(108)
Total creditors falling due within one year	(52,210)	(49,089)

Payment terms for balances due to Group undertakings are as mutually agreed between the companies within the IGas group.

Amounts due to Group and affiliate undertakings include intercompany loans which are repayable on demand and bear interest at 0.5%. The counterparty has no intention to call on the loan with the Company within 12 months from the date of the approval of these financial statements.

The carrying value of the Company's financial liabilities is considered to be a reasonable approximation of their fair value.

15. Other provisions

Decommissioning	31 December 2020 £000	31 December 2019 £000
1 January	(2,810)	(2,113)
Re-assessment of provision (note 9)	2	(632)
Unwinding of discount (note 7)	(84)	(65)
31 December	(2,892)	(2,810)

Provision has been made for the discounted future cost of abandoning wells and restoring fields to a condition acceptable to all relevant authorities. This is expected to take place between 16 to 22 years from the year end (2019: 13 to 25 years).

The provision is based on the Company's internal estimates as at 31 December 2020. Assumptions are based on the current experience from decommissioning wells which management believe is a reasonable basis upon which to estimate the future liability. The estimates are reviewed regularly to take account of any material changes to the assumptions.

Actual decommissioning costs will ultimately depend upon future costs for decommissioning which will reflect market conditions and regulations at that time. Furthermore, the timing of decommissioning is uncertain and is likely to depend on when the fields cease to produce at economically viable rates. This, in turn, will depend on factors such as future oil and gas prices, which are inherently uncertain.

A risk free rate of 3.0% was used in the calculation of the provision as at 31 December 2020 (2019: range of 3.00% - 3.01%).

Notes to the financial statements (continued)
For the year ended 31 December 2020

16. Called up share capital

	Par value p/share	2020 shares	2019 shares	2020 £'000	2019 £'000
Authorised share capital	£1	10,000,000	10,000,000	10,000	10,000
Allotted and fully paid					
1 January	£1	3,305,805	3,305,805	3,306	3,306
31 December	£1	3,305,805	3,305,805	3,306	3,306

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

17. Capital commitments

The Company's capital commitments relate to spend committed but not spent on conventional licences at 31 December 2020 and amount to £nil (2019: £46,000).

18. Subsequent events

On 4 February 2021, the Company's registered office changed from 7 Down Street, London, W1J 7AJ to Welton Gathering Centre, Barfield Lane Off Wragby Road, Sudbrooke, Lincoln, LN2 2QX.

19. Ultimate parent undertaking

The Company's immediate and ultimate parent undertaking is IGas Energy plc which is the only undertaking to consolidate these financial statements. The Company is included within the consolidated financial statements which are publicly available on the ultimate parent undertaking's website at www.igasplc.com.