

REGISTERED NUMBER: 05498467 (England and Wales)

VALHALLA OIL AND GAS LIMITED
REPORT OF THE DIRECTOR AND
FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015

HPCA Limited
Chartered Accountants
and Statutory Auditors
Station House
Connaught Road
Brookwood
Woking
Surrey
GU24 0ER



VALHALLA OIL AND GAS LIMITED

COMPANY INFORMATION
for the year ended 31 December 2015

DIRECTOR:

Mr H W Ashton

SECRETARY:

Aldlex Limited

REGISTERED OFFICE:

C/o Peachey and Co LLP
95 Aldwych
LONDON
WC2B 4JF

REGISTERED NUMBER:

05498467 (England and Wales)

AUDITORS:

HPCA Limited
Chartered Accountants
and Statutory Auditors
Station House
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VALHALLA OIL AND GAS LIMITED

REPORT OF THE DIRECTOR **for the year ended 31 December 2015**

The director presents his report with the financial statements of the company for the year ended 31 December 2015.

REVIEW OF BUSINESS

The company is participating in licences offshore Ireland and has ownership rights to contingent petroleum resources in the evaluation phase. The company is solely managed by the parent company and advisors/consultants. During 2014 and 2015 the E&P industry has experienced a downturn due to worldwide falling oil and gas prices and this has reduced the activity level generally and slowed progress in the company's licences portfolio specifically.

Celtic Sea

The company holds a 20% interest in licence SEL 4/05 with the gas discovery Old Head of Kinsale ('OHK') operated by Island Oil and Gas Limited/Ardilaun Energy Limited (65%) and EnCore Exploration Limited (15%) as partners. In early 2015 San Leon Energy completed the sale of its subsidiary, Island Oil and Gas Limited to Ardilaun Energy Limited. However the transaction approval and the application for a Lease Undertaking ('LU') for SEL 4/05 are still pending approval by the Petroleum Affairs Division of the Department of Communications, Energy and Natural Resources ('PAD'). During the course of 2014 further seismic studies/evaluations were undertaken.

Due to the PAD not yet approving the San Leon transaction, no evaluations or operations were carried out with regards to licence SEL 4/05 during 2015.

The company also holds a 25% interest in licence SEL 5/05 with the Schull gas discovery operated by Island Oil and Gas Limited/Ardilaun Energy Limited (62.5%) and EnCore Exploration Limited (12.5%) as partner. The Schull licence gas discovery constitutes an upside to OHK in the Celtic Sea. Like OHK, so also for Schull, the San Leon - Ardilaun transaction and LU-application are pending PAD approval. No adjustment to the existing impairment provision made in 2010 is considered necessary. During the course of 2014 further seismic studies/evaluations were undertaken.

Due to the PAD not yet approving the San Leon transaction, no evaluations or operations were carried out with regards to licence SEL 5/05 during 2015.

DIRECTOR

Mr H W Ashton held office during the whole of the period from 1 January 2015 to the date of this report.

All major decisions taken by the director are done in conjunction with the management of the parent company.

GOING CONCERN

The director has prepared the financial statements on the going concern basis which assumes that the company will continue in operational existence for the foreseeable future and be able to meet its liabilities as they fall due. However, there are material uncertainties that the director has had to consider which may cast significant doubt on the company's ability to continue as a going concern. These have been outlined in Note 2 of the financial statements.

ENVIRONMENTAL COMMITMENT AND RESPONSIBILITY

The company is committed to conducting its business in an ethically, socially and environmentally responsible manner.

STATEMENT OF DIRECTOR'S RESPONSIBILITIES

The director is responsible for preparing the Report of the Director and the financial statements in accordance with applicable law and regulations.

Company law requires the director to prepare financial statements for each financial year. Under that law the director has elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the director must not approve the financial statements unless he is 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 director is required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

VALHALLA OIL AND GAS LIMITED

REPORT OF THE DIRECTOR
for the year ended 31 December 2015

STATEMENT OF DIRECTOR'S RESPONSIBILITIES - continued

The director is 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 him to ensure that the financial statements comply with the Companies Act 2006. He is 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.

STATEMENT AS TO DISCLOSURE OF INFORMATION TO AUDITORS

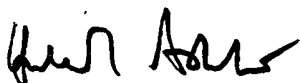
So far as the director is aware, there is no relevant audit information (as defined by Section 418 of the Companies Act 2006) of which the company's auditors are unaware, and he has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

AUDITORS

The auditors, HPCA Limited, will be proposed for re-appointment at the forthcoming Annual General Meeting.

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

ON BEHALF OF THE BOARD:



Mr H W Ashton - Director

Date:

22 September 2016

REPORT OF THE INDEPENDENT AUDITORS TO THE MEMBERS OF
VALHALLA OIL AND GAS LIMITED

We have audited the financial statements of Valhalla Oil and Gas Limited for the year ended 31 December 2015 on pages six to eleven. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland'.

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 a Report of the Auditors 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.

Respective responsibilities of director and auditors

As explained more fully in the Statement of Director's Responsibilities set out on pages two and three, the director is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the director; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Report of the Director to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2015 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Emphasis of matter - Going concern and valuation of intangible assets

In forming our opinion on the financial statements, which is not modified, we have considered the adequacy of the disclosure made in note 2 to the financial statements concerning the company's ability to continue as a going concern. The financial statements have been prepared on a going concern basis, the validity of which depends upon continuing availability of financial support from the parent company, Valhalla Oil and Gas AS. These conditions, along with other matters explained in note 2 to the financial statements, indicate the existence of a material uncertainty which may cast significant doubt about the company's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the company was unable to continue as a going concern.

Additionally we have considered the adequacy of the disclosures made in note 5 to the financial statements in relation to the Director's assessment of the carrying value of the Intangible Assets amounting to £7,068,408 at 31 December 2015. The financial statements do not include adjustments that would result if the Company could not recover the full carrying value of the Intangible Assets.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Report of the Director for the financial year for which the financial statements are prepared is consistent with the financial statements.

REPORT OF THE INDEPENDENT AUDITORS TO THE MEMBERS OF
VALHALLA OIL AND GAS LIMITED

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us 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 director's remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit; or
- the director was not entitled to prepare the financial statements in accordance with the small companies regime and take advantage of the small companies' exemption from the requirement to prepare a Strategic Report or in preparing the Report of the Director.



Lance Redman (Senior Statutory Auditor)
for and on behalf of HPCA Limited
Chartered Accountants
and Statutory Auditors
Station House
Connaught Road
Brookwood
Woking
Surrey
GU24 0ER

Date: 27 September 2016

VALHALLA OIL AND GAS LIMITED

INCOME STATEMENT
for the year ended 31 December 2015

	Notes	2015 £	2014 £
TURNOVER		-	-
Administrative expenses		<u>33,233</u>	<u>56,267</u>
OPERATING LOSS		(33,233)	(56,267)
Interest receivable and similar income		<u>9</u>	<u>10</u>
		(33,224)	(56,257)
Interest payable and similar expenses		<u>15,822</u>	<u>15,068</u>
LOSS BEFORE TAXATION		(49,046)	(71,325)
Tax on loss	4	<u>-</u>	<u>-</u>
LOSS FOR THE FINANCIAL YEAR		<u>(49,046)</u>	<u>(71,325)</u>

The notes form part of these financial statements

VALHALLA OIL AND GAS LIMITED (REGISTERED NUMBER: 05498467)

BALANCE SHEET
31 December 2015

	Notes	2015 £	2014 £
FIXED ASSETS			
Intangible assets	5	7,068,408	7,062,093
CURRENT ASSETS			
Debtors: amounts falling due within one year	6	813	3,148
Cash at bank		17,887	7,305
		18,700	10,453
CREDITORS			
Amounts falling due within one year	7	1,321,630	9,625
NET CURRENT (LIABILITIES)/ASSETS		(1,302,930)	828
TOTAL ASSETS LESS CURRENT LIABILITIES		5,765,478	7,062,921
CREDITORS			
Amounts falling due after more than one year	8	-	(1,264,219)
PROVISIONS FOR LIABILITIES	9	(332,257)	(316,435)
NET ASSETS		5,433,221	5,482,267
CAPITAL AND RESERVES			
Called up share capital		17,601,000	17,601,000
Retained earnings		(12,167,779)	(12,118,733)
SHAREHOLDERS' FUNDS		5,433,221	5,482,267

The financial statements have been prepared in accordance with the provisions of Part 15 of the Companies Act 2006 relating to small companies.

The financial statements were approved by the director on 22 September 2016 and were signed by:


.....
Mr H W Ashton - Director

The notes form part of these financial statements

VALHALLA OIL AND GAS LIMITED

NOTES TO THE FINANCIAL STATEMENTS **for the year ended 31 December 2015**

1. STATUTORY INFORMATION

Valhalla Oil and Gas Limited is a private company, limited by shares, registered in England and Wales. The company's registered number and registered office address can be found on the Company Information page.

2. ACCOUNTING POLICIES

Basis of preparing the financial statements

These financial statements have been prepared in accordance with the provisions of Section 1A "Small Entities" of Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" and the Companies Act 2006. The financial statements have been prepared under the historical cost convention.

The director has prepared the financial statements on the going concern basis which assumes that the company will continue in operational existence for the foreseeable future and be able to meet its liabilities as they fall due. There are material uncertainties that the director has had to consider which may cast significant doubt on the company's ability to continue as a going concern.

For the year ended 31 December 2015, the company incurred a loss of £49,046, and reported net current liabilities of £1,302,930 at that date although this includes £1,303,419 due to its parent company, Valhalla Oil and Gas AS. The director has prepared cash flow forecasts to the end of 2016 which show that the company is dependent on the support of its parent company in order to be able to meet its obligations for the foreseeable future. The director has received assurances from the parent company that it aims to provide the necessary financial support for the period until 30 September 2017 to enable the company to meet its liabilities as and when they fall due.

However, the ability of the parent company to provide this financial support depends, in turn, on its own access to sufficient funds. The directors of the parent company will continue its board discussions and consult with the largest shareholders and financial advisors in the second half of 2016, regarding the best strategy and timing of raising additional capital requirements. They confirm that they will continue their efforts to secure adequate further funding however material uncertainties still exist.

In the opinion of the director the matters described above represent material uncertainties which may cast significant doubt on the company's ability to continue as a going concern and, therefore, to continue to realise its assets and discharge its liabilities in the normal course of business. Notwithstanding the above, the director considers that the parent company will continue as in the past to provide financial support to enable the company to continue in operational existence for the foreseeable future and to meet its liabilities as they fall due. Accordingly the director has concluded that it is appropriate that the financial statements continue to be prepared on the going concern basis.

In the event that the company does not continue to receive the necessary financial support from the parent company, the going concern basis may not be valid. In such circumstances, adjustments would have to be made to reduce the value of the assets to their recoverable amount, to provide for any further liabilities which may arise and to reclassify fixed assets and long-liabilities as current.

Oil and gas assets

The company uses the successful efforts method of accounting for oil and gas operations, under which all license acquisitions, exploration and evaluation costs are capitalised within intangible assets and classified as exploration and evaluation costs. Directly attributable administration costs are capitalised where they relate to specific exploration activities. Costs incurred prior to obtaining the legal rights to explore an area are expensed to the Income Statement.

If commercial reserves are not discovered or licenses are relinquished, these exploration and evaluation assets are written off to the income statement. Amounts carried on the balance sheet are at each balance sheet date assessed for impairment.

If a project is sanctioned for development, the carrying values of the exploration and evaluation costs are transferred to tangible assets after assessment for impairment. These costs are amortised from the commencement of production on a unit of production basis.

VALHALLA OIL AND GAS LIMITED

NOTES TO THE FINANCIAL STATEMENTS - continued **for the year ended 31 December 2015**

2. ACCOUNTING POLICIES - continued

Deferred tax

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date.

Revenue recognition

Oil and gas revenue is recognised to the extent that it is probable that the economic benefits will flow to the company and the revenues can be reliably measured. To date, the company has no revenue from oil and gas sales.

Joint ventures

The company contracts with others through unincorporated joint ventures to pursue its operations. All such arrangements are jointly controlled operations and the company accounts for its share of income, expenditure, assets and liabilities relating to that arrangement.

Impairment

The company's oil and gas assets are analysed into cash generating units 'CGU' for impairment review purposes, with exploration and evaluation ('E&E') asset impairment being performed at a grouped CGU level. The current CGU consists of the company's whole E&E portfolio. E&E assets are reviewed for impairment when circumstances arise which indicate that the carrying value of an E&E asset exceeds the recoverable amount. When reviewing E&E assets for impairment, the combined carrying value of the grouped CGU is compared with the grouped CGU's recoverable amount. The recoverable amount of a grouped CGU is determined at the higher of its fair value less costs to sell and value in use. Impairment losses resulting from an impairment review are written off to the income statement.

3. AUDITORS' REMUNERATION

	2015 £	2014 £
Fees payable to the company's auditors for the audit of the company's financial statements	<u>5,750</u>	<u>6,250</u>

4. TAXATION

Analysis of the tax charge

No liability to UK corporation tax arose for the year ended 31 December 2015 nor for the year ended 31 December 2014.

At the balance sheet date the company has a potential deferred tax asset relating to tax losses, decelerated capital allowances and other timing differences of approximately £3.6 m (31 December 2014 £4.1m). This has not been recognised as there is insufficient evidence of future taxable profits. The company's total eligible pre-trading operating expenditure, capital expenditure and ring fence expenditure supplement amounted to approximately £20.1 million at 31 December 2015.

VALHALLA OIL AND GAS LIMITED

NOTES TO THE FINANCIAL STATEMENTS - continued
for the year ended 31 December 2015

5. INTANGIBLE FIXED ASSETS

	Exploration and Evaluation £
COST	
At 1 January 2015	12,016,907
Additions	6,315
	<hr/>
At 31 December 2015	12,023,222
	<hr/>
AMORTISATION	
At 1 January 2015	
and 31 December 2015	4,954,814
	<hr/>
NET BOOK VALUE	
At 31 December 2015	7,068,408
	<hr/>
At 31 December 2014	7,062,093
	<hr/>

The net book value at 31 December 2015 relates to licences for which applications for lease undertakings have been made by the operator to the Petroleum Affairs Division of the Department of Communications, Energy and Natural Resources.

The impairment provision was originally set up in 2010 and related to the Schull 5/05 licence which the then management of the Company believed to be less commercially viable than initially thought. In 2012 further impairment provision was made due to the delay in progress on the Old Head of Kinsale 4/05 licence.

The valuation was based on the then management of the Company's judgement of 'value in use', taking in to account estimates of; the levels of gas reserves identified, pricing trends, levels of capital and operating expenditure, potential timing of production and the levels of uncertainty inherent in these estimates. Based on these internal valuations, no further adjustment to the carrying values of these assets is considered necessary as at 31 December 2015. The company is currently exploring opportunities to sell these assets. Should such a sale go ahead the consideration received may be materially different to the carrying values shown.

6. DEBTORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2015 £	2014 £
VAT	813	1,073
Prepayments	-	2,075
	<hr/>	<hr/>
	813	3,148
	<hr/>	<hr/>

7. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2015 £	2014 £
Trade creditors	5,972	601
Amounts owed to group undertakings	1,302,419	-
Accrued expenses	13,239	9,024
	<hr/>	<hr/>
	1,321,630	9,625
	<hr/>	<hr/>

VALHALLA OIL AND GAS LIMITED

NOTES TO THE FINANCIAL STATEMENTS - continued
for the year ended 31 December 2015

8. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	2015 £	2014 £
Amounts owed to group undertakings	-	1,264,219

9. PROVISIONS FOR LIABILITIES

	2015 £	2014 £
Other provisions		
Provisions	332,257	316,435
Balance at 1 January 2015		316,435
Unwinding of discounted amount		15,822
Balance at 31 December 2015		332,257

The provision relates to the company's obligation for the decommissioning costs associated with the abandonment of the Schull and Old Head of Kinsale wells. The amount of the provision reflects the present value of expenditure and is reviewed at each balance sheet date. The company estimates that the cash outflow against this provision will arise after 2020 and is based on external estimates of expected costs. Future costs will differ if the decommissioning work cannot be performed as part of a multi-well programme.

10. RELATED PARTY DISCLOSURES

At the year end, the company owed its parent company Valhalla Oil and Gas AS £1,304,219 (2014; £1,266,019) in respect of funding for the company's operations. A sister company, Valhalla Oil and Gas (Porcupine) Ltd. owed the company £1,800 (2014; £1,800). The companies have agreed that the debt due from Valhalla Oil and Gas (Porcupine) Ltd. should be assigned to Valhalla Oil and Gas AS such that only the net balance is included within creditors in these accounts.

Legal fees of £17,775 were paid during the period to Peachey & Co. LLP, including £6,000 for Mr Ashton's services as a director. Mr Ashton is a member of Peachey & Co. LLP.

11. ULTIMATE CONTROLLING PARTY

The ultimate parent company is considered to be Valhalla Oil and Gas AS, a company incorporated in Norway.