

IOG UK Limited

Annual Report and Audited Financial Statements

For the year ended 31 December 2021

Company Number 08619688



IOG UK Limited

Annual report and audited financial statements for the year ended 31 December 2021

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Country of incorporation

England and Wales

Legal form

Private limited company with share capital

Directors

Andrew Hockey
Rupert Newall

Company Secretary

Robin Storey

Registered office

6th Floor
60 Gracechurch Street
London EC3V 0HR
United Kingdom

Company number

08619688

IOG UK Limited

Strategic Report for the year ended 31 December 2021

The Directors present their Strategic Report, Directors' Report and the audited financial statements of IOG UK Limited (the 'Company' or 'IOGUK') for the year ended 31 December 2021. All amounts are shown in Pounds Sterling, unless otherwise stated.

STRATEGIC REPORT

Review of activities and business review

The Company is currently the licensee and operator of three Traditional Licences and one Innovate C Licence all in the Southern North Sea ('SNS'):

- P1915 covering Block 49/21c in which lies the Southwark discovery;
- P039 covering Block 49/21a in which lies the Elland discovery;
- P130 covering Block 48/25b in which lies the Nailsworth discovery; and
- P2342 covering Block 48/25a which lies adjacent to the Nailsworth discovery.

IOGUK holds all licences at 50% ownership.

2021 Licence Update

On 9 December 2021, the Initial Term of Licence P2342 (Nailsworth) was extended by a period of 21 months to the 30 September 2023 to allow Phase 2 FDP preparation to continue.

IOG UK Limited

Strategic Report for the year ended 31 December 2021 (*continued*)

Statement of Reserves & Resources

Reserves (net to IOG)

Vulcan Satellites	Gas Reserves (bcf)			Condensate Reserves (mmbbls)		
Field	1P	2P	3P	1P	2P	3P
Nailsworth ²	30.2	49.7	73.6	0.3	0.5	0.8
Elland ²	20.0	27.5	36.5	0.0	0.0	0.0
Southwark ¹	23.2	35.6	52.4	0.0	0.0	0.0
Total (arithmetic sum)	73.4	112.8	162.5	0.3	0.5	0.8

Source: ¹ Management Estimates: March 2022 ² ERC Equipose Competent Person's Report 11 October 2017

Phase 1 Drilling

The Southwark gas discovery in the Rotliegend Leman Sandstone Formation sits in Block 49/21c in Licence P1915 in which IOGUKL has a 50% working interest as operator. The Southwark Field Development Plan (FDP) envisages a three well development tied back to the Saturn Banks Pipeline System (SBPS) via a 6km extension to the Southwark unmanned platform. Following seismic reprocessing to Pre-Stack Depth Migration (PSDM), seismic reinterpretation and initial 3D subsurface modelling, the drilling plan was updated to have the first two wells initially batch drilled after Blythe, with the third well deferred to incorporate the data and conclusions from the first two.

Following the Blythe well, one of the Noble Hans Deul jack-up drilling rig's legs was damaged as it was being mobilised to the Southwark location. After being repaired in Dundee port, the rig returned to the Southwark location and the first Southwark well was spudded on 30 December 2021, before rig stability issues resulted in the requirement to move off location again while a seabed remediation plan was engineered and executed. These unexpected drilling issues at Southwark are expected to cause increases to the total Phase 1 outturn capital expenditure. Southwark drilling is resumed in Q2 2022 and Southwark first gas is therefore now targeted in Q4 2022.

Phase 1 Subsurface

Southwark (P1915)

During 2021, a regional evaluation of the Southwark and adjacent Vulcan Satellite area was undertaken. This involved review of the reprocessed PSDM seismic data that was completed in Q1 2021 and the incorporation of other regional seismic and geological data sets. This new technical work generated an updated view on the structural framework and top reservoir geometry of the Southwark field, resulting in an improved understanding of the location of the bounding faults separating Southwark from the Leman gas field to the south. This has resulted in a reduction in Gross Rock Value (GRV) in this southwestern area of the field and consequently the previous gross 1P/2P/3P management estimates have reduced from 61.2/94.2/137.7 to 46.3/71.2/104.7 BCF. It was not possible to include data from the Southwark development wells into the subsurface models in time for the publication of this report, so the March 2022 volumetric assessment above has been based on existing reservoir modelling. This estimate is subject to further review based on the data from the development wells which are due to resumed shortly and subsequent initial production data.

Southwark Offshore Oilfield: (Platforms, wells, subsurface structures, and pipelines): The site decommissioning and restoration obligation is specified in the license agreement with approvals from the OGA. An internal assessment has been made at FDP and based on this the decommissioning costs are estimated to be £7.5 million nominal value (IOG net share 50%). As per the current long-term plans of IOG this asset will be in use until 2038 with decommissioning expected the year after in 2039.

IOG UK Limited

Strategic Report for the year ended 31 December 2021 (*continued*)

Nailsworth (P130 & P2342)

IOGUKL has a 50% working interest and is operator of the P130 and P2342 licences, which contain the Nailsworth gas discovery. Nailsworth is a three-way dip and fault sealed structure directly north of the Vulcan field, which produced 665 BCF between 1988 and 2018. Four exploration and appraisal wells have been drilled on the Nailsworth structure, confirming a gas-water contact ("GWC") of -7,657ft TVDSS. The Company has reprocessed 3D seismic data to Pre-Stack Depth Migration ("PSDM") standard, and completed new static reservoir modelling of the field, with dynamic reservoir modelling expected to be completed by early Q3 2022. In its 2017 Competent Persons Report (CPR), ERC Equipose assessed gross 1P/2P/3P gas reserves to be 60.4/99.4/147.2 BCF in Nailsworth. The current gross 1P/2P/3P management estimated Nailsworth gas reserves are likewise 60.4/99.4/147.2 BCF.

The Nailsworth discovery is intended to be the first Phase 2 field to be developed and has been under evaluation in stage two of IOG's Project Governance Process, which assesses the optimal development concept for the field within the context of the Saturn Banks infrastructure and the wider asset portfolio. Based on this work, the Company expects to put Nailsworth through the concept select gate by Q4 2022. This would be followed by further Front-End Engineering and Design and development well planning work, alongside the drafting of a Field Development Programme and an Environmental Statement ahead of a Final Investment Decision expected in the second half of 2022.

The optimal development of the Nailsworth discovery is likely to be via hydraulically stimulated production wells, which could be phased based on well performance. To maximise operational and commercial synergies, Nailsworth production is expected to be transported via a spur line to the Southwark platform 19km to the southeast, for onward transportation to the Bacton Gas Terminal via the IOG plc Group owned and operated Saturn Banks Pipeline System.

Elland (P039)

IOGUKL has a 50% working interest and is operator of the P039 licence, which contains the Elland gas discovery, designated as part of Phase 2 of the Saturn Banks Project. In its 2017 CPR, ERC Equipose assessed gross 1P/2P/3P gas reserves to be 39.9/55.0/72.9 BCF in Elland. The current gross 1P/2P/3P management estimated Elland gas reserves are likewise 39.9/55.0/72.9 BCF. Management's technical view on Elland is expected to be updated as part of the ongoing Nailsworth subsurface evaluation.

Further to the Elland suspended well 49/21-10A decommissioning review, prepared by Acona in April 2015, IOGUKL has revisited the decommissioning provision for the well. It is envisaged that permanent plugging and abandonment of the well can be completed at a gross cost of £2.4 million (£1.2 million net to IOG), due to savings through synergies associated with an Elland development drilling programme.

Key Performance Indicators

The Directors consider both quantitative and qualitative information to be the KPIs of the Company.

KPI's are measured across the IOG Group by the Board of the parent, IOG plc ("IOG"). The Company's main business is the acquisition and exploitation of oil and gas acreage. Non-financial performance is tracked through the accumulation of licence interests followed by the successful discovery and exploitation of oil and gas reserves as indicated through prospective, contingent, and proved reserves inventories. Financial performance is tracked by IOG, on behalf of the IOG Group, through the raising of finance to fund proposed programmes and the control of costs against budgets.

The Company monitors its performance against its primary HSE and ESG KPIs, which are the Total Recordable Incident Rate (Lost Time Incidents per 200,000 manhours worked) and Scope 1 and 2 emissions (and/or emissions intensity from 2022 onwards whereby relevant emissions are measured against total annual production). Other HSE performance indicators include securing all relevant environmental permits, consent and approvals, maintaining a verified Environmental Management System.

IOG UK Limited

Strategic Report for the year ended 31 December 2021 (continued)

Principal Risks and Uncertainties

The company operates in the oil and gas industry, an environment subject to a range of inherent risks and uncertainties. Key risks and associated mitigation are set out below.

Finance: Management seeks to generate shareholder returns through monetisation of a portfolio of proven offshore gas assets. This primarily entails construction and installation of production, transportation and processing infrastructure and drilling of production wells. These activities carry several key risks.	
Risk	Mitigation
Volatility in macroeconomic conditions may hinder delivery of the Company's business plan	<ul style="list-style-type: none"> IOG has fully funded the Phase 1 development and therefore has sufficient liquidity for its planned activities As a buyer of products and services, the Company faces both risks and opportunities from economic volatility
Each asset carries a range of potential values	<ul style="list-style-type: none"> The Company has a healthily diversified portfolio of 6 proven gas fields in its Core Project, plus further assets which could potentially be added, therefore there is limited financial dependence on a single asset
The parent company may not be able to raise funds to exploit the Company assets or for the Company to continue as a going concern	<ul style="list-style-type: none"> The Company's parent successfully undertook equity, debt and farm-out funding from CER in 2019 which fully funded the company's Phase 1 activities. It anticipates that cash flows from Phase 1 will help to fund further phases of development, with Phase 2 also benefiting from an agreed £65.0 million of partner development carry.
The Company has given security over its assets to London Oil and Gas Limited ('LOG'), being the lender of the parent company, Independent Oil & Gas plc ('IOG'), and the IOG group, which could hinder efforts to raise additional equity funding	<ul style="list-style-type: none"> The Company notes that the administrators of London Capital & Finance ("LCF"), with respect to LOG's holding in IOG, have stated publicly in December 2020 that they saw the market value of the Company at the time as a "significant discount to IOG's estimated net asset value". Management continues to have a positive engagement with the administrators and believe they intend to maximise the value of the LOG holding in IOG.
Adverse environmental effects of our activities including, in particular, contributing to Climate Change	<ul style="list-style-type: none"> The Company has established a Climate Change and Sustainability Policy, which can be read in full on its website Strategic focus on domestic natural gas resources as a key fuel for the Energy Transition with lower carbon content than other hydrocarbons (including imported gas) Use of low carbon intensity facilities, including re-use of existing infrastructure

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Strategic Report for the year ended 31 December 2021 (continued)

Principal Risks and Uncertainties (continued)

Licensing & Regulation: The Company may be unable to meet its licence and regulatory obligations.	
Risk	Mitigation
UKCS Licences may be revoked	<ul style="list-style-type: none"> Continue proactive communications with the OGA to determine licence status and meet requirements
Operations: Operations may not go to plan, leading to damage, pollution, cost overruns and poor outcomes	
Risk	Mitigation
Reservoir and subsurface uncertainty	<ul style="list-style-type: none"> Technical evaluation of all licences, including subsurface mapping and reservoir modelling by competent, highly qualified and experienced in-house team supported where necessary by leading technical consultancies, with independent third-party reports commissioned as appropriate A prudent range of input assumptions and possible outcomes are always considered within planning processes The Company aims to minimise reservoir risks through high quality well design The Company seeks to itemise and apply lessons learned from earlier wells when drilling subsequent wells
Departure from Schedule and Budget	<ul style="list-style-type: none"> Ensure the project team is populated with sufficient competent personnel Award contracts to competent contractors Test schedule and budget - rigorous schedule and budget control Follow gate process, utilise peer reviews at appropriate project stages
Market conditions for rig and marine vessel procurement may harden.	<ul style="list-style-type: none"> Contractual rates with existing platform and pipeline contracts have been fixed Issue advance ITTs to obtain prices for future services Where possible incentivise contracts in order to minimise delivered cost
Cyber Security	<ul style="list-style-type: none"> Build an enhanced IT security plan and supporting procedures, including in particular: Improve access right to systems and protocols Enhance onboarding and leaving processes
Resource estimates may be misleading curtailing actual reserves recovered	<ul style="list-style-type: none"> The Company deploys qualified personnel Regular third-party reports are commissioned A prudent range of possible outcomes are considered within the planning process
Regulatory and Legal: The Company may be unable to meet its licence and regulatory obligations	
Risk	Mitigation
Delay in obtaining Offshore Field Development plan (FDP) consent, including Environmental consent for Phase 1	<ul style="list-style-type: none"> Expedite submission of final revision of EIA to BEIS and then expedite BEIS to grant EIA approval. Liaison with OGA and other authorities to minimise delays in approvals Fully prepare all relevant applications for prompt submission.
Deficiency in Corporate Governance	<ul style="list-style-type: none"> Develop, implement and maintain a suitable suite of corporate procedures (e.g. Financial Operating Procedures). All contracts must be authorised by Contracting and Procurement Function, General Counsel and Finance

IOG UK Limited

Strategic Report for the year ended 31 December 2021 (continued)

Human Resources: The Company relies upon a pool of experienced and motivated personnel to identify and execute successful investment strategies	
Risks	Mitigation
Building and maintaining a fit for purpose team	<ul style="list-style-type: none"> The Company has over recent years established a competent, experienced team across all key disciplines, which mitigates the risk of losing any key individual The Company's Remuneration Committee regularly evaluates incentivisation schemes to ensure they remain in line with market standards The Company undertakes annual external benchmarking for all roles to ensure its salaries and benefits are appropriate and competitive
Disruption from the Covid-19 pandemic	<ul style="list-style-type: none"> Throughout the pandemic the Company has successfully implemented logistical and organisational changes to underpin its resilience to Covid-19
HSE and Sustainability	
Risks	Mitigation
Personal harm to those that may be affected by our undertakings	<ul style="list-style-type: none"> Compliance with the UK regulatory goal setting regime for safety is established, implemented and maintained through the Company leadership HSE and Technical Committee, culture and management systems for safety The Company continually reviews and updates its HSE Policy, which can be read in full on its website The Company employs experienced in-house HSE practitioners to ensure it meets all its related obligations, supported by appropriate external subject matter experts and consultants
Adverse environmental effects of our activities including, in particular, contributing to Climate Change	<ul style="list-style-type: none"> The Company has a Climate Change and Sustainability Policy, which can be read in full on its website Strategic focus on low carbon intensity domestic natural gas resources as a key fuel for the Energy Transition with lower carbon content than other hydrocarbons (including imported gas)
Commercial environment: World and regional markets continue to be volatile with fluctuations and infrastructure access issues that might hinder the Company's business success	
Risk	Mitigation
Stakeholder mis-alignment	<ul style="list-style-type: none"> The Company undertakes very regular discussions and meetings with key stakeholders, to build mutual understanding and maintain positive relationships The Company continually seeks to understand stakeholders' priorities, drivers and risk tolerance levels
Volatile commodity prices mean that the Company cannot be certain of the future sales value of its products	<ul style="list-style-type: none"> Price mitigation strategies may be employed at the point of major capital commitment Gas may be sold under long-term contracts reducing exposure to short term fluctuations Oil and gas price hedging contracts may be utilised where viable Budget planning considers a range of commodity pricing

IOG UK Limited

Strategic Report for the year ended 31 December 2021 (continued)

Principal Risks and Uncertainties (continued)

Gas price volatility	<ul style="list-style-type: none"> During 2021 the UK gas market, along with other global gas benchmarks, rose significantly and has remained relatively high in 2022 year to date, putting the Company at a tangible advantage versus its planning case gas price assumption of 45p/therm (seasonally adjusted) While gas market volatility has increased over recent months and particularly since the onset of the Russia-Ukraine conflict, fluctuations are around very high price levels at the time of writing The UK NBP forward curve priced the Winter 2022 contract at over 300p/therm and Summer 2023 over 190p/therm on 17 June, indicating an expectation of a very supply constrained market over the coming year. These levels fluctuate significantly and are not a forecast of future day-ahead prices. The Company actively manages its costs and has an appropriate hedging policy which it will start executing at the appropriate time to mitigate the risks of commodity price volatility (see "Corporate Hedging Policy" section above) Hedging strategies may also be employed to derisk major incremental capital commitments Budget planning considers a range of commodity pricing, taking into account potential future price scenarios, and advice is taken from independent third-party market experts
The Company may not be able to get access, at reasonable cost, to infrastructure and product markets when required	<ul style="list-style-type: none"> A range of different off-take options are pursued wherever possible

COVID-19 Pandemic: Post period end the COVID-19 pandemic has created severe economic upheaval and unforeseeable disruptions to normal working practices around the world	
Risks	Mitigation
COVID-19 Pandemic and associated economic volatility materially disrupts the Company's ability to deliver its key corporate objectives	<ul style="list-style-type: none"> The Company is supported by its ultimate parent undertaking. IOG has already secured funding to achieve first gas and free cash flow, and is not dependent on current cash flows to fund itself IOG has implemented logistical and organisational changes to underpin its resilience to severe economic disruption driven by COVID-19, with the key focus being protecting all personnel, minimising impact on critical workstreams and ensuring business continuity

On behalf of the board



Rupert Newall
Director
27 June 2022

IOG UK Limited

Directors' Report for the year ended 31 December 2021

Results and dividend

The Company made no profit / loss on ordinary activities for the year of £nil (2020: loss £233k).

The Directors do not recommend the payment of a dividend (2020: £nil).

Funding and Liquidity

The Company is dependent on the financial support of its immediate parent, IOG plc, due to the balance sheet showing a net asset position, due to the balance due to its ultimate parent company. After a review of the forecasts the Directors have a reasonable expectation that the IOG Group has adequate resources to continue to support the Company in operational existence for the period under review and therefore considered it appropriate to continue to adopt the going concern basis in preparing the consolidated financial statements. The Company has received a letter of support from the Parent Company indicating its intention to provide the necessary financial support to the Company for a period of at least 12 months from the date of approval of these financial statements.

The financial statements do not include any adjustments that would result if the Company were unable to continue as a going concern. A detailed discussion on going concern is included in Note 1 to the financial statements.

Directors and their interests

The Directors who held office during the year, and at the date of this report, were:

Andrew Hockey
Rupert Newall

There are no directors' interests requiring disclosure under the Companies Act 2006.

Indemnities

The Company did not provide Directors and Officers Liability insurance during the year (2020: nil).

Financial instruments

Information on financial instruments can be found in Note 10 to the financial statements.

Related parties

Information on related parties can be found in Note 12 to the financial statements.

Subsequent events

Information on subsequent events can be found in Note 14 to the financial statements.

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Directors' Report for the year ended 31 December 2021 (*continued*)

Statement of directors' responsibilities

The Directors are responsible for preparing the Strategic Report, the Directors' Report and the financial statements in accordance with applicable UK law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law, the Directors have elected to prepare the Company's financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards 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 these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with UK Accounting Standards, subject to any material departures disclosed and explained in the financial statements; 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 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 requirements of the Companies Act 2006. They 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.

Directors' confirmation

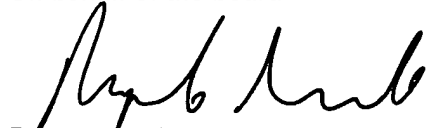
Each person who is director at the time when this report is approved has confirmed that:

- a. So far as each director is aware, there is no relevant audit information of which the Company's auditor is unaware; and
- b. Each director has taken all the steps that ought to have been taken as a director, including making appropriate enquiries of fellow directors for that purpose, in order to be aware of any information needed by the Company's auditor in connection with preparing their report and to establish that the Company's auditor is aware of that information.

Auditor

BDO LLP have expressed their willingness to continue in office and a resolution to re appoint them will be proposed at the Annual General Meeting.

On behalf of the board



Rupert Newall
Director

27 June 2022

IOG UK Limited

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF IOG UK LIMITED for the year ended 31 December 2021

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2021 and of its results 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.

We have audited the financial statements of IOG UK Limited ("the Company") for the year ended 31 December 2021 which comprise the Statement of Comprehensive Income, the Statement of Changes in Equity, the Statement of Financial Position and the notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 101 Reduced Disclosure Framework (United Kingdom Generally Accepted Accounting Practice).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the Directors with respect to going concern are described in the relevant sections of this report.

Other information

The directors are responsible for the other information. The other information comprises the information included in the Annual Report other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon. Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

IOG UK Limited

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF IOG UK LIMITED for the year ended 31 December 2021

Other Companies Act 2006 reporting

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic report and the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic report and the Directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic report or the Directors' report.

We have nothing to report in respect of the following matters in relation to which 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 Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of Directors

As explained more fully in the Statement of Directors' Responsibilities, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for 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 the Directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

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 an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a 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 the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Extent to which the audit was capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

We considered the risk of management override during the course of our work. We considered the potential for management override to arise in respect of the areas where management are required to make judgements and estimates in the determination of a financial statement balance.

We considered the laws and regulations of the United Kingdom to be those relating to the industry, financial reporting framework, tax legislation, environmental regulations as the most relevant to the audit given the

IOG UK Limited

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF IOG UK LIMITED for the year ended 31 December 2021

geographical area of focus of the Company. As part of our audit work we reviewed and held meetings with the relevant internal Management to form our own opinion on the extent of the Company's compliance.

In addition, our testing also included, but was not limited to:

- Testing the financial statement disclosures to supporting documentation, performing substantive testing on account balances which were considered to be a greater risk of susceptibility to fraud;
- Enquiring of Management of known or suspected instances of fraud, potential litigation and claims;
- Reading minutes of meetings of those charged with governance and regulatory authorities to identify any instances of non-compliance with laws and regulations;
- Communicating relevant identified laws and regulations and potential fraud risks to all engagement team members and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit;
- Assessing the susceptibility of the financial statements to material misstatement, including how fraud might occur by making enquiries of management during the planning and execution phases of our audit to understand where they considered there to be susceptibility to fraud, considering the risk of management override of controls and relevant controls established to address risks identified to prevent or detect fraud;
- Testing the relevant controls surrounding the financial reporting close process such as controls over the posting of journals and the financial reporting process and obtained an understanding of the segregation of duties in these processes;
- Addressing the risk of fraud through management override of controls by testing the appropriateness of a sample of journal entries where we considered there to be a higher risk of potential fraud and other adjustments, assessing whether the judgements made in making accounting estimates are indicative of a potential bias, and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business;
- Obtaining an understanding of the Company's IT and the wider control environment and the process for management approval and Board sanction of cost requisitions, and
- Applying professional scepticism in our audit procedures and performing randomised procedures to include a level of unpredictability.

These procedures are designed to address the risk of material misstatements in respect of irregularities, including fraud, but do not provide absolute assurance as to the non-existence of any such misstatements.

Our audit procedures were designed to respond to risks of material misstatement in the financial statements, recognising that the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery, misrepresentations or through collusion. There are inherent limitations in the audit procedures performed and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we are to become aware of it.

A further description of our responsibilities is available on the Financial Reporting Council's website at: <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

Use of our report

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.

DocuSigned by:
Anne Sayers
88392C356CA246E...

Anne Sayers (Senior Statutory Auditor)
For and on behalf of BDO LLP, statutory auditor
London, UK
Date: 27/06/2022

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

IOG UK Limited

Statement of comprehensive income for the year ended 31 December 2021

	Note	2021 £000	2020 £000
Foreign exchange loss		-	(233)
Operating loss		-	(233)
Loss for the year before taxation		-	(233)
Taxation	4	-	-
Total comprehensive (loss) for the year attributable to equity holders		-	(233)

The Notes on pages 16 to 39 form part of these financial statements.

IOG UK Limited

Statement of changes in equity for the year ended 31 December 2021

	Share capital £000	Share premium £000	Accumulated deficit £000	Total equity £000
At 1 January 2020	4,180	22,204	(20,541)	5,843
Loss and total comprehensive loss for the year	-	-	(233)	(233)
At 31 December 2020	4,180	22,204	(20,774)	5,610
At 1 January 2021	4,180	22,204	(20,774)	5,610
Total comprehensive loss for the year	-	-	-	-
At 31 December 2021	4,180	22,204	(20,774)	5,610

Share capital

Amounts subscribed for share capital at nominal value.

Share premium

Amounts received by the Company on the issue of its shares above the nominal value of the shares.

Accumulated deficit

Cumulative net gains and losses recognised in the Statement of Comprehensive Income net of amounts recognised directly in equity.

The Notes on pages 16 to 39 form part of these financial statements.


IOG UK Limited

Statement of financial position at 31 December 2021

Company Number: 08619688

	Note	2021 £000	2020 £000
Non-current assets			
Property, plant and equipment: development and production	5	41,956	17,760
		<u>41,956</u>	<u>17,760</u>
Current assets			
Restricted Cash	9	100	100
		<u>100</u>	<u>100</u>
Total assets		<u>42,056</u>	<u>17,860</u>
Current liabilities			
Trade and other payables	6	(12,238)	(4,284)
Advances from parent company	6	(16,451)	(6,766)
		<u>(28,689)</u>	<u>(11,050)</u>
Non-current liabilities			
Other liabilities	7	(7,757)	(1,200)
		<u>(7,757)</u>	<u>(1,200)</u>
Total liabilities		<u>(36,446)</u>	<u>(12,250)</u>
Net assets		<u>5,610</u>	<u>5,610</u>
Capital and reserves			
Share capital	8	4,180	4,180
Share premium		22,204	22,204
Accumulated deficit		(20,774)	(20,774)
		<u>5,610</u>	<u>5,610</u>

The financial statements were approved and authorised for issue by the Board of Directors on 27 June 2022 and were signed on its behalf by:


Rupert Newall
Director
27 June 2022

The Notes on pages 16 to 39 form part of these financial statements.

IOG UK Limited

Notes forming part of the financial statements for the year ended 31 December 2021

General information

IOG UK Limited is a private limited company incorporated and domiciled in England and Wales. The Company's financial statements for the year ended 31 December 2021 were authorised for issue by the Board of Directors on 27 June 2022.

Basis of preparation

The principal accounting policies adopted in the preparation of the financial statements are set out below. The policies have been consistently applied to all the periods presented, unless otherwise stated. The financial statements are presented in Pounds Sterling which is also the Company's functional currency. Amounts are rounded to the nearest thousand unless otherwise stated. These financial statements have been prepared in accordance with United Kingdom Accounting Standards – FRS 101 and with those parts of Companies Act 2006 applicable to companies preparing their accounts using FRS 101.

Disclosure exemptions adopted

In preparing these financial statements the company has taken advantage of certain relevant disclosure exemptions conferred by FRS 101 and has not provided:

- a Statement of Cash Flows and related disclosures for cash flows from discontinued activities
- disclosure of the effect of future accounting standards not yet adopted
- Related party transactions with two or more wholly owned members of the group

The preparation of financial statements in compliance with adopted IFRS requires the use of certain critical accounting estimates. It also requires Company management to exercise judgment in applying the Company's accounting policies. The areas where significant judgments and estimates have been made in preparing the financial statements and their effect are disclosed in this Note 1 on pages 22 and 23. The financial statements have been prepared on a historical cost basis.

Going concern

In assessing the Company's status as a going concern the Board has reviewed the IOG Group's cash flow forecasts having regard to its current financial position and operational objectives as the Company is reliant on the Parent Company for funding. The Company has received a letter of support from the Parent Company indicating its intention to provide the necessary financial support to the Company for a period of at least 12 months from the date of approval of these financial statements.

In determining the Group's ability to continue as a going concern, the IOG plc Board regularly monitors its cash, funding and liquidity position. Near term cash projections are revised and underlying assumptions reviewed regularly as well as longer-term projections. The Group has utilised a set of reasonable assumptions around activities, costs, timings, asset performance and other relevant economic factors in its projections. It has also considered downside price and operational performance scenarios, including potential production interruptions and operational delays. The nature of the Group's operations inherently involves a range of potential outcomes and in that context prudent assumptions are used to develop its view of most likely outcomes, as well as identifying measures to mitigate or eliminate potential risks that may affect cash flows.

Based on these forecasts, and particularly in light of the recent announcement of the First Gas milestone for Phase 1 amid a very elevated gas market, the Directors have a reasonable expectation that the IOG Group has adequate resources to continue in operational existence for the going concern period. To this end, the Directors believe that the Company can be represented as being a going concern without any modification of material uncertainty for these financial statements.

Consequently, the financial statements do not include any adjustments that would result if the Group and the Parent Company were unable to continue as a going concern and could not provide the support confirmed to the Company through the provision of the letter of support.

IOG UK Limited

Notes forming part of the financial statements for the year ended 31 December 2021 (continued)

1 Accounting policies (continued)

New and revised accounting standards

For annual reporting periods beginning on or after 1 January 2021, the following is a newly effective requirement:

IFRS	IASB Effective Date	Note in financial statements	EU Endorsement status
LIBOR reform and its Effects on Financial Reporting – phase 2	1 January 2021		Endorsed

Interest Rate Benchmark Reform – Phase 2 introduces amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 and is not mandatorily effective until annual periods beginning on or after 1 January 2021, however, many entities were expected to adopt the amendments early. As such, these financial statements include the effect of the adoption of these amendments from the comparative period i.e. financial year ended 31 December 2020.

Early adoption of Standards and Amendments

The table below lists all pronouncements with a mandatory effective date in future accounting

Mandatorily effective for periods beginning on or after 1 April 2021	Mandatorily effective for periods beginning on or after 1 January 2022	Mandatorily effective for periods beginning on or after 1 January 2023
IFRS 16 Leases: Covid-19-Related Rent Concessions beyond 30 June 2021*	Annual Improvements to IFRSs - 2018-2020 cycle	IFRS 17 Insurance Contracts
	IAS 16 Property, Plant and Equipment (Amendment – Proceeds before Intended Use)	IAS 1 Presentation of Financial Statements (Amendment – Classification of Liabilities as Current or Non-current)
	IAS 37 Provisions, Contingent Liabilities and Contingent Assets (Amendment – Onerous Contracts – Cost of Fulfilling a Contract)	IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2 (Amendment – Disclosure of Accounting Policies)
	IFRS 3 Business Combinations (Amendment – Reference to the Conceptual Framework)	IAS 8 Accounting policies, Changes in Accounting Estimates and Errors (Amendment - Definition of Accounting Estimates)
		IAS 12 Income Taxes (Amendment – Deferred Tax related to Assets and Liabilities arising from a Single Transaction)

*The Company has early adopted the amendment to IFRS 16 Covid-19-Related Rent Concessions beyond 30 June 2021 from annual reporting period beginning on 1 January 2021, as permitted by the amendment. The effects of this amendment to IFRS 16 on the recognition and measurement of items in the financial statements are disclosed

IOG UK Limited

Notes forming part of the financial statements for the year ended 31 December 2021 (continued)

1 Accounting policies (continued)

in note 1.

The company includes only its share of costs, revenues and other items which are covered under the joint operating agreement.

Asset Acquisition

In the event of an asset acquisition, the cost of the acquisition is assigned to the individual assets and liabilities based on their relative fair values. All directly attributable costs are capitalised. Contingent consideration is accrued for when these amounts are considered probable and are discounted to present value based on the expected timing of payment.

Oil and gas exploration, development and producing assets

The Company adopts the following accounting policies for oil and gas asset expenditure, based on the stage of development of the assets:-

a) Pre-Licence

Expenditure incurred prior to the acquisition and/or award of a licence interest is expensed to the Statement of Comprehensive Income as 'Exploration Expenses'.

b) Exploration and evaluation ('E&E')

Capitalisation

Costs incurred after rights to explore have been obtained, such as geological and geophysical surveys, drilling and commercial appraisal costs, and other directly attributable costs of exploration and appraisal including technical and administrative overheads (including time writing as described under D&P capitalisation), are capitalised as intangible exploration and evaluation ('E&E') assets. The assessment of what constitutes an individual E&E asset is based on technical criteria but essentially either a single licence area or contiguous licence areas with consistent geological features are designated as individual E&E assets. Costs relating to the exploration and evaluation of oil and gas interests are carried forward until the existence, or otherwise, of commercial reserves have been determined.

E&E costs are not amortised prior to the conclusion of appraisal activities. Once active exploration is completed the asset is assessed for impairment. If commercial reserves are discovered then the carrying value of the E&E asset is reclassified as a development and production ('D&P') asset, within property, plant and equipment ('PPE'), following development sanction by the Board, but only after the carrying value is assessed for impairment at point of transfer and, where appropriate, its carrying value adjusted. Following development sanction by the Board, a Field Development Plan ('FDP') may be submitted. If it is subsequently assessed that commercial reserves have not been discovered, the E&E asset is written off to the Statement of Comprehensive Income. The Company's definition of commercial reserves for such purpose is proven and probable ('2P') reserves on an entitlement basis.

Intangible E&E assets that relate to E&E activities that are not yet determined to have resulted in the discovery of commercial reserves remain capitalised as intangible E&E assets at cost, subject to impairment assessments as set out below.

Impairment

The Company's oil and gas assets are analysed into cash generating units ('CGU') for impairment reporting purposes, with E&E asset impairment testing being performed at an individual asset level. 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. Such indicators would include but not limited to:

- (i) adequate and sufficient data exists that render the resource uneconomic and unlikely to be developed;
- (ii) title to the asset is compromised.

IOG UK Limited

Notes forming part of the financial statements for the year ended 31 December 2021 (continued)

1 Accounting policies (continued)

Accounting policies (continued)

- (iii) budgeted or planned expenditure is not expected in the foreseeable future, and
- (iv) insufficient discovery of commercially viable resources leading to the discontinuation of activities
- (v) Rights to explore in an area have expired or will expire in the near future without renewal

Oil and gas exploration, development and producing assets (continued)

The recoverable amount of the individual asset is determined as the higher of its fair value less costs to sell and value in use. Impairment losses resulting from an impairment review are separately recognised and written off to the Statement of Comprehensive Income.

Impaired assets are reviewed annually to determine whether any substantial change to their fair value amounts previously impaired would require reversal.

A previously recognised impairment loss is reversed if the recoverable amount increases because of a change in the estimates used to determine the recoverable amount, but not to an amount higher than the carrying amount that would have been determined (net of depletion or amortisation) had no impairment loss been recognised in prior periods. Reversal of impairments and impairment charges are credited/(charged) to a separate line item within the Statement of Comprehensive Income.

c) Development and production ('D&P')

Capitalisation

Costs of bringing a field into production, including the cost of facilities, wells and sub-sea equipment together with E&E assets reclassified in accordance with the above policy, are capitalised as a D&P asset within PPE. Normally each individual field development will form an individual D&P asset but there may be cases, such as phased developments, or multiple fields around a single production facility when fields are grouped together to form a single D&P asset. The cost of development and production assets also include the cost of acquisitions and purchases of such assets, directly attributable overheads, applicable borrowing costs and the cost of recognising provisions for future consideration payments - see Note 11. The discounted cost for future decommissioning is also added to the D&P asset. Personnel / staff costs are charged to D&P assets based on a time writing system where all identified staff input their time across assets and activities, they work on during any given period at a precalculated hourly rate which takes into account various elements of staff costs and seniority of the organisational position.

Rig day rate costs attributable to changes or adjustments to the drilling program due to rescheduling are considered as normal and inherent to the activity of drilling wells that form part of the infrastructure and therefore these costs are capitalised to the asset.

Depreciation and depletion

All costs relating to a development are accumulated and not depreciated/depleted until the commencement of production. Depletion is calculated on a UOP basis based on the 2P reserves of the asset. Any re-assessment of reserves affects the depletion rate prospectively. Significant items of plant and equipment will normally be fully depreciated over the life of the field; however, these items are assessed to consider if their useful lives differ from the expected life of the D&P asset and should this occur a different depreciation rate may be charged. The key areas of estimation regarding depletion and the associated unit of production calculation for oil and gas assets are recoverable reserves and future capital expenditures.

Impairment

A review is carried out for any indication that the carrying value of the Company's D&P assets may be impaired. If any indicators are identified, a review of D&P assets is carried out on an asset by asset basis and involves comparing the carrying value with the recoverable value of an asset. The recoverable amount of an asset is determined as the higher of its fair value less costs to sell and value in use. The value in use is determined from estimated future net cash flows, being the present value of the future cash flows expected to be derived from

IOG UK Limited

Notes forming part of the financial statements for the year ended 31 December 2021 *(continued)*

1 Accounting policies *(continued)*

production of commercial reserves. Impairment resulting from the impairment testing is charged to a separate line item within the Statement of Comprehensive Income.

The pre-tax future cash flows are adjusted for risks specific to the CGU and are discounted using a pre-tax discount rate. The discount rate is derived from the Group's post-tax weighted average cost of capital and is adjusted where applicable to consider any specific risks relating to the country where the CGU is located, although other rates may be used if appropriate to the specific circumstances. The discount rates applied in assessments of impairment are reassessed each year. The Company uses a risk adjusted discount rate of 10%, unless otherwise stated.

The CGU basis is generally the field, however, oil and gas assets, including infrastructure assets may be accounted for on an aggregated basis where such assets are economically inter-dependent.

IOG UK Limited

Notes forming part of the financial statements for the year ended 31 December 2021 (continued)

1 Accounting policies (continued)

Oil and gas exploration, development and producing assets (continued)

d) Offshore Pipelines

Capitalisation

Costs of commissioning an offshore pipeline to transport hydrocarbons, including the cost of related onshore facilities and subsea equipment are capitalised as a tangible asset within PPE. Each contiguous pipeline will form an exclusive individual asset but there may be cases, such as phased developments, when pipelines are grouped together to form a single tangible pipeline asset. The cost of offshore pipeline assets also includes the cost of acquisitions and purchases of such assets, directly attributable overheads, applicable borrowing costs and the discounted cost of future decommissioning.

Depreciation

All costs relating to pipeline commissioning are not depreciated until the commencement of transportation of hydrocarbons. Depreciation is calculated on a straight-line basis over the period in which transportation is likely to take place. Any re-assessment of this timeline will impact on the depreciation rate prospectively. The key areas of estimation regarding depreciation are future capital expenditures and recoverable reserves for those fields where such pipelines are utilised for the transportation of oil and gas production.

Impairment

A review is carried out for any indication that the carrying value of the pipeline asset may be impaired. If any indicators are identified, such as the pipeline's inability to continue to operate safely and effectively in its current environment, a review of the pipeline asset is carried out. Impairment resulting from the impairment review is charged to a separate line item within the Statement of Comprehensive Income.

e) Borrowing costs

Borrowing costs directly attributable to the construction of qualifying assets, which are assets that necessarily take a substantial period of time to prepare for their intended use, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use. All other borrowing costs are recognised as interest payable in the statement of comprehensive income in accordance with the effective interest method.

Assets other than oil and gas interests

Assets other than oil and gas interests are stated at cost, less accumulated depreciation and any provision for impairment. Depreciation is provided at rates estimated to write off the cost, less estimated residual value, of each asset over its expected useful life as follows: -

- Computer and office equipment: 33% straight line, with one full year's depreciation in year of acquisition; and
- Tenants improvements: 20% straight line, with one full year's depreciation in year of acquisition.
- Right of use assets: Straight line over the term of the lease

Provisions

Provisions are recognised when:-

- the company has a present legal or constructive obligation resulting from past events;
- it is more likely than not that an outflow of resources will be required to settle the obligation; and
- the amount can be reliably estimated.

Decommissioning

Provisions for decommissioning costs are recognised in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets. Provisions are recorded at the present value of the expenditures expected to be required to settle the Company's future obligations.

IOG UK Limited

Notes forming part of the financial statements for the year ended 31 December 2021 (continued)

1 Accounting policies (continued)

Provisions are reviewed at each reporting date to reflect the current best estimate of the cost at present value. Any change in the date on which provisions fall due will change the present value of the provision. These changes are treated as an administration expense. The unwinding of the discount is reflected as a finance expense.

In the case of a D&P and/or pipeline asset, since the future cost of decommissioning is regarded as part of the total investment to gain access to future economic benefits, this is included as part of the cost of the relevant D&P and/or pipeline asset.

Disposals

Net proceeds from any disposal of an E&E, D&P or pipeline asset are initially credited against the previously capitalised costs of that asset and any surplus or shortfall proceeds are credited or debited to the Statement of Comprehensive Income.

For the Farm down of an E&E, D&P or pipeline asset, proceeds from the farm-down are credited against the previously capitalised costs of the asset and any surplus or shortfall proceeds above or below the representative percentage of the carrying value of the asset or assets being farmed down are credited or debited to the Statement of Comprehensive Income accordingly.

Foreign currencies

The Company's presentational currency is GBP Sterling and has been selected based on the currency of the primary economic environment in which the Group operates. The Company's primary product is generally traded by reference to its pricing in GBP Sterling. The functional currency of the company is also considered to be GBP Sterling. Transactions in currencies other than the functional currency of a company are recorded at a rate of exchange approximating to that prevailing at the date of the transaction. At each balance sheet date, monetary assets and liabilities that are denominated in currencies other than the functional currency are translated at the amounts prevailing at the balance sheet date and any gains or losses arising are recognised in the Consolidated Statement of Comprehensive Income.

Taxation

Current Tax

Tax is payable based upon taxable profit for the year. Taxable profit differs from net profit as reported in the Statement of Comprehensive Income because it excludes items of income or expense that are taxable or deductible on other years and it further excludes items that are never taxable or deductible. Any Company liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the reporting date.

Deferred Tax

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are

recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, except where the Company can control the reversal of the temporary differences and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled, or the asset is realised. Deferred tax is charged or credited in the Statement of Comprehensive Income, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity. Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

IOG UK Limited

Notes forming part of the financial statements for the year ended 31 December 2021 (continued)

1 Accounting policies (continued)

The amount of the asset or liability is determined using tax rates that have been enacted or substantively enacted by the reporting date and are expected to apply when the deferred tax liabilities/(assets) are settled/(recovered). Deferred tax balances are not discounted.

Investments & Loans (Company)

Non-current investments in subsidiary undertakings are shown in the Company's Statement of Financial Position at cost less any provision for permanent diminution of value.

Loans to subsidiary undertakings are stated at amortised cost and recognised in accordance with IFRS 9. The loans have no maturity date and are not repayable until the respective subsidiary entity has sufficient cash to repay the loan, however they are technically due on demand.

Leases

IFRS 16 sets out the principles for the recognition, measurement, presentation, and disclosure of leases and requires lessees to account for all leases, with limited exceptions, under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. Under IFRS 16, at the commencement date of a lease, a lessee is required to recognise a liability to make lease payments ('lease liability') and an asset representing the right to use the underlying asset during the lease term ('right-of-use asset', 'ROU'). Lease liabilities are measured at the present value of future lease payments over the reasonably certain lease term. Variable lease payments that do not depend on an index or a rate are not included in the lease liability. Such payments are expensed as incurred throughout the lease term.

Lessees are required to separately recognise the interest expense associated with the unwinding of the lease liability and the depreciation expense on the right-of-use asset. As the leases relate to D&P work scopes the depreciation expense is capitalised and treated as the cost of the underlying D&P asset. These costs replace amounts previously recognised as operating expenditure in respect of operating leases in accordance with IAS 17. After completion of Development phase, once the assets come into operation the depreciation of the right of use asset will be charged to the income statement on straight line basis over the course of the lease term.

The Company adopted IFRS 16 on 1 January 2019 using the modified retrospective approach. The modified retrospective approach does not require restatement of prior period financial information, instead recognising the cumulative effect as an adjustment to opening retained earnings and the Company applied the standard prospectively.

The Company has elected to apply the following optional practical expedients under the standard:

- Short-term leases – those with terms of 12 months or less at date of adoption
- Low-value leases – those with a value less than £5,000

In 2021 the ROU assets and lease obligations related to the adoption of IFRS 16, relate to office leases, the Thames Pipeline permission to cross the foreshore, the Noble Hans Deul drilling rig contract, Charter of PSV "VOS Paradise" and Charter of ERV "Esvagt Champion". The incremental borrowing rate of approximately 9.25% was used for all ROU (except Thames Pipeline permission) in arriving at net present value of future lease payments as they belong to the same asset class and with similar lease terms. The internal borrowing rate for Thames Pipeline was retained at 11.5% as it belongs to a different asset class and has longer lease term. The ROU for Noble Hans Deul was increased in line with the extension option.

The Company has elected to utilise the practical expedient when accounting for the Noble Rig, PSV and ERV contract to not separate non-lease components from lease components, and instead account for each lease component and any non-lease component as a single component.

The Company depreciates the ROU assets on a straight-line basis over the length of the lease unless management determines this is not representative of the useful life, in which case, management will estimate the useful life of the asset to be used.

The liability is remeasured when there is a change in future lease payments arising from a change in an index or rate or if the Company changes its assessment of whether it will exercise a purchase, extension or termination option. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying

IOG UK Limited

Notes forming part of the financial statements for the year ended 31 December 2021 (*continued*)

1 Accounting policies (*continued*)

amount of the right-of-use asset or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The right-of-use asset is measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received. Right-of-use assets are depreciated over the shorter period of lease term and useful life of the underlying asset.

Financial Instruments

Financial instruments are recognised when the Company becomes a party to the contractual provisions of the instrument and are subsequently measured at amortised cost.

Classification and measurement of financial assets

The initial classification of a financial asset depends upon the Company's business model for managing its financial assets and the contractual terms of the cash flows. The Company's financial assets are measured at amortised cost and are held within a business model whose objective is to hold assets to collect contractual cash flows and its contractual terms give rise on specified dates to cash flows that represent solely payments of principal and interest.

The Company's cash and cash equivalents and other receivables are measured at amortised cost. Other receivables are initially measured at fair value. The Company holds other receivables with the objective to collect the contractual cash flows and therefore measures them subsequently at amortised cost.

The Company has financial assets measured at FVOCI (Fair Value Through Other Comprehensive Income) or FVTPL (Fair Value Through the Statement of Profit or Loss).

Fair value measurement

A number of assets and liabilities included in the Company's financial statements require measurement at, and/or disclosure of, fair value.

The fair value measurement of the Company's financial and non-financial assets and liabilities utilises market observable inputs and data as far as possible. Inputs used in determining fair value measurements are categorised into different levels based on how observable the inputs used in the valuation technique utilised are (the 'fair value hierarchy'):

- Level 1: Quoted prices in active markets for identical items (unadjusted)
- Level 2: Observable direct or indirect inputs other than Level 1 inputs
- Level 3: Unobservable inputs (i.e. not derived from market data).

The classification of an item into the above levels is based on the lowest level of the inputs used that has a significant effect on the fair value measurement of the item. Transfers of items between levels are recognised in the period they occur

Restricted cash

Restricted cash includes cash balances that are subject to access restrictions or have conditions attached to their drawdown. Included in this are monies raised from its Norwegian bond placing held in Debt Servicing Retention account and subject to defined conditions. Also included are balances held as collateralised security in the Company's name for future expenditures such as Decommissioning.

IOG UK Limited

Notes forming part of the financial statements for the year ended 31 December 2021 (continued)

1 Accounting policies (continued)

Cash and cash equivalents

Cash includes cash on hand and demand deposits with any bank or other financial institution. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash which are subject to an insignificant risk of changes in value.

Impairment of financial assets

The Company recognises loss allowances for expected credit losses ('ECL's) on its financial assets measured at amortised cost. Due to the nature of its financial assets, the Company measures loss allowances at an amount equal to the lifetime ECLs. Lifetime ECLs are the anticipated ECLs that result from all possible default events over the expected life of a financial asset. ECLs are a probability-weighted estimate of credit losses. The Company has carried out an analysis of the balances outstanding at the end of the period and assessed the likelihood of repayment from its subsidiaries. It believes that there is no significant increase in credit risk from the prior year and, if anything, the position is strengthened with the sanction of the phase 1 project resulting in future cashflows for its subsidiaries.

Classification and measurement of financial liabilities

A financial liability is initially classified as measured at amortised cost or FVTPL. A financial liability is classified as measured at FVTPL if it is held-for-trading, a derivative or designated as FVTPL on initial recognition.

The Company's accounts payable, accrued liabilities, operators balances and long-term debt are measured at amortised cost.

Accounts payable, accrued liabilities and operators balances are initially measured at fair value and subsequently measured at amortised cost. Accounts payable and accrued liabilities are presented as current liabilities unless payment is not due within 12 months after the reporting period.

Long-term debt is initially measured at fair value, net of transaction costs incurred. The contractual cash flows of the long-term debt are made up of solely principal and interest, therefore long-term debt is subsequently measured at amortised cost. Long-term debt is classified as current when payment is due within 12 months after the reporting period.

Where warrants are issued in lieu of arrangement fees on debt facilities, the fair value of the warrants are measured at the date of grant as determined through the use of the Black-Scholes technique. The fair value determined at the grant

date of the warrants is recognised in the Company's warrant reserve and is amortised as a finance cost over the life of the facility.

Contingent consideration payable:

Where applicable, the consideration for the acquisition includes any asset or liability resulting from a contingent consideration arrangement, measured at its acquisition date fair value. Subsequent changes in the fair values are adjusted against the cost of acquisition where they qualify as measurement period adjustments (see below). All other subsequent changes in the fair value of contingent considerations classified either as an asset or liability are accounted for in accordance with relevant IFRSs with any gains or losses recorded in the income statement unless it is classified as equity.

IOG UK Limited

Notes forming part of the financial statements for the year ended 31 December 2021 *(continued)*

1 Accounting policies *(continued)*

Financial instruments *(continued)*

Equity

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

Share issue expenses and share premium account

The costs of issuing new share capital are written off against the share premium account arising out of the proceeds of the new issue.

Critical accounting judgements and key sources of estimation uncertainty

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgements about carrying values of assets and liabilities that are not clear from other sources. Actual results may differ from these estimates.

The following are the critical judgements that management has made in the process of applying the entity's accounting policies and that have the most significant effect on the amounts recognised in financial statements.

IOG UK Limited

Notes forming part of the financial statements for the year ended 31 December 2021 (continued)

1 Accounting policies (continued)

Critical accounting judgements and key sources of estimation uncertainty (continued)

Critical accounting estimates and judgements

The Company makes certain estimates and assumptions regarding the future. Estimates and judgements are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. In the future, actual experience may differ from these estimates and assumptions. The estimates and assumptions 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.

Judgements

Where judgements have been applied, these can affect the outcome and results within the Financial Statements. An area that carries significant judgement is around the accounting for the IFRS 16 assumptions for the Noble Hans Deul rig contract, charter of PSV supply vessel & charter of ERRV (emergency rapid response vessel). These contracts have been assessed to fall within the scope of IFRS 16 and judgements around the initial contract length, subsequent extension (in case of Noble Hans Deul) and the incremental borrowing rate have been made by Management.

The Company capitalises the borrowing cost, so far as the monies borrowed are utilised towards financing capital expenditures in engineering, construction, and procurement of its onshore and offshore facilities, drilling wells. The rate of capitalisation of interest is based on the level of actual capital expenditure incurred on each of the identified assets. Capitalisation of interest costs ceases when the asset is considered available for use.

The right of use assets recognised under IFRS 16 for lease with terms extending over a year are depreciated over the lease term on straight line method. The 3 main leases relate to equipment and facilities used in carrying out field Development activities the amount equal to the depreciation is capitalised and to that extent the estimated value of work done accruals are adjusted to reflect the most accurate asset values.

The Company capitalises a certain proportion of its personnel / staff costs as D&P tangible assets or E&E intangible assets based on a system of time writing. This system requires identified staff to input their hourly details based on work performed to against the specific assets and/or activities. An hourly rate has been defined based on components of staff costs and varies depending on staff seniority. The definition of hourly rate and time writing involves management judgement.

Estimates and assumptions

- Impairment Exploration, Development and Producing assets – Estimate of future cash flows and determination of the discount rate (see note 10).
- The determination of lease term for some lease contracts in which the Company is a lessee, including whether the Company is reasonably certain to exercise lessee options (note 23)
- The determination of the incremental borrowing rate used to measure lease liabilities (note 1)

Impairment of assets

Management is required to assess oil and gas assets for indicators of impairment and has considered the economic value of individual E&E and D&P assets. The carrying value of oil and gas assets is disclosed in Notes 11. The carrying value of related investments in the Company Statement of Financial Position is disclosed on page 48. E&E assets are subject to a separate review for indicators of impairment, by reference to the impairment indicators set out in IFRS 6, which is inherently judgmental.

Indicators of impairment include, but are not limited to:

- Rights to explore in an area have expired or will expire in the near future without renewal
- No further exploration or evaluation is planned or budgeted

IOG UK Limited

Notes forming part of the financial statements for the year ended 31 December 2021 *(continued)*

1 Accounting policies *(continued)*

- A decision to discontinue exploration and evaluation in an area because of the absence of commercial reserves
- Sufficient data exists to indicate that the book value will not be fully recovered from future development and production.
- Significant downward trend changes long term gas price

Any information available that would lead to a reduction in the reservoir estimates, either performance or via an updated reserves assessment by a competent person

- Significant cost overruns that would impact the economics of the CGU / asset
- Any commercial changes that would impact the economics of the CGU / asset
- Any regulatory, governance or environmental changes that would impact the asset's ability to function as previously envisaged.

Key estimates used in the assessment of value in use and fair value less costs to sell assessments

As noted in the accounting policy the carrying value of the assets is assessed against the higher of a value-in-use calculation and a fair value less costs to sell assessment.

The calculation of value-in-use for oil and gas assets under development or in production is most sensitive to the following assumptions:

- Commercial reserves;
- production volumes/recoverable reserves;
- commodity prices;
- fixed and variable operating costs;
- capital expenditure; and
- discount rates

In assessing value in use, estimated future cash flows are discounted to their present value using a discount rate appropriate to the specific asset or cash generating unit. If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount. Impairment losses are recognised immediately in the statement of comprehensive income.

IOG UK Limited

Notes forming part of the financial statements for the year ended 31 December 2021 (continued)

1 Accounting policies (continued)

Critical accounting judgements and key sources of estimation uncertainty (continued)

Commercial Reserves

Commercial reserves are proven and probable ('2P') oil and gas reserves, calculated on an entitlement basis. Estimates of commercial reserves underpin the calculation of depletion and amortisation on a UOP basis, oil and gas asset impairments, as well as the valuation of assets in use. Estimates of commercial reserves include estimates of the amount of oil and gas in place, assumptions about reservoir performance over the life of the field and assumptions about commercial factors which, in turn, will be affected by the future oil and gas price.

Production volumes/recoverable reserves

Annual estimates of oil and gas reserves are generated internally by the Group with external input from operator profiles and/or a Competent Person. These are reported annually by the Board. The self-certified estimated future production profiles are used in the life of the fields which in turn are used as a basis in the value-in-use calculation.

Commodity prices

A seasonally adjusted long-term assumption for natural UKNBP gas and Brent oil are used for future cash flows in accordance with the Group's corporate assumptions. Field specific discounts and prices are used where applicable.

Fixed and variable operating costs

Typical examples of variable operating costs are pipeline tariffs, treatment charges and freight costs. Commercial agreements are in place for most of these costs and the assumptions used in the value-in-use calculation are sourced from these where available. Examples of fixed operating costs are platform costs and operator overheads. Fixed operating costs are based on operator and/or third-party duty holder budgets.

Capital expenditure

Field development is capital intensive and future capital expenditure has a significant bearing on the value of an oil and gas development asset. In addition, capital expenditure may be required for producing fields to increase production and/or extend the life of the field. Cost assumptions are based on operator and/or service contractor cost estimates or specific contracts where available.

Capitalisation of the borrowing costs

Borrowing costs directly attributable to the construction of qualifying assets, which are assets that necessarily take a substantial period of time to prepare for their intended use, are added to the cost of those assets, until such time as the assets is substantially ready for their intended use. Although a significant progress has been made in the Engineering, construction and installation of the qualifying assets they were not fully tested and commissioned at the end of the year nor at the assets been put to their intended use and hence directly attributable borrowing costs continued to be capitalised.

Discount rates

Discount rates reflect the current market assessment of the risks specific to the oil and gas sector and are based on the weighted average cost of capital for the Group. Where appropriate, the rates are adjusted to reflect the market assessment of any risk specific to the field for which future estimated cash flows have not been adjusted. The Group has applied a risk adjusted discount rate of 9.25% for the current year (2020: 10%).

Sensitivity to changes in assumptions

A potential change in any of the above assumptions may cause the estimated recoverable value to be lower than the carrying value, resulting in an impairment loss. The assumptions which would have the greatest impact on the recoverable amounts of the fields are production volumes (linked to recoverable reserves) and commodity prices.

IOG UK Limited

Notes forming part of the financial statements for the year ended 31 December 2021 (continued)

1 Accounting policies (continued)

Investments in subsidiaries

If circumstances indicate that impairment may exist, investments in and the value of any loans to subsidiary undertakings of the Company are evaluated using market values, where available, or the discounted expected future cash flows of the investment. If these cash flows are lower than the Company's carrying value of the

investment or loan amount due, an impairment charge is recorded in the Company. Evaluation of impairments on such investments involves significant management judgement and may differ from actual results.

Decommissioning

At 31 December 2021, the Company has obligations in respect of decommissioning a suspended well on the Southwark, Nailsworth and Elland D&P assets.

The extent to which a provision is recognised depends on the legal requirements at the date of decommissioning, regulatory activity required to ensure such infrastructure meets safety and environmental requirements, the estimated costs and timing of the work and the discount rate applied.

A full decommissioning estimate for the Southwark, Nailsworth and Elland D&P assets remains uncertain until all development infrastructure has been installed and production volumes and time to decommissioning has been considered. Until all development infrastructure has been installed and production volumes and time to abandonment has been considered, there is significant estimation uncertainty when providing a decommissioning estimate.

Southwark Offshore Oilfield: (Platforms, wells, subsurface structures, and pipelines): The site decommissioning and restoration obligation is specified in the license agreement with approvals from the OGA. An internal assessment has been made at FDP and based on this the decommissioning costs are estimated to be £15 million. As per the current long-term plans of IOG this asset will be in use until 2038 with decommissioning expected the year after in 2039.

Elland Offshore Oilfield: As licensee and operator, IOG UK Limited is responsible for the decommissioning liability with respect to the Elland (former Vulcan East) suspended well 49/21-10A located within Licence P039. An internal assessment has been made in 2021 and based on this the decommissioning costs are estimated to be £2.4 million. As per the current plans of IOG this well will be decommissioned in 2023.

Management

Management performed sensitivity analysis to assess the impact of changes to the risk-free rate on the Group's decommissioning provision balance. A 0.5% decrease in the risk-free rate assumption would result in an increase in the decommissioning provision by £1.2 million.

Contingent Consideration

The Company was required under the terms of the 2016 acquisition of the additional 50% of Blythe, the 2016 acquisition of Vulcan Satellites, to make further amounts payable on both the FDP approval (Vulcans), and first gas (Blythe and Vulcans).

These milestone events triggering deferred consideration payments were considered to be more certain than not and a non-current amount of £2.3 million was recognised. These amounts were provided for and the payments discounted to the point where the Board expect the milestones to be achieved based on the current development programme.

However during 2021 the administrators of the counter party have instructed the company that the deferred consideration is deemed to have expired and the administrators do not consider this to be payable any longer by the company. Management have therefore taken the judgement to reverse the non-current liability.

Fair value of share options and warrants

IOG UK Limited

Notes forming part of the financial statements for the year ended 31 December 2021 *(continued)*

1 Accounting policies *(continued)*

The fair value of options and warrants is calculated using appropriate estimates of expected volatility, risk free rates of return, expected life of the options/warrants, the dividend growth rate, the number of options expected to vest and the impact of any attached conditions of exercise. See above for further details of these assumptions.

IOG UK Limited

Notes forming part of the financial statements for the year ended 31 December 2021 (continued)

2 Operating Loss

The Company's operating loss is stated after charging the following:

	2021 £000	2020 £000
Fees payable to the Company's auditor for the audit of the Company's financial statements	-	-

Audit fees for 2021 were paid and captured by IOG plc, the company's ultimate parent.

3 Staff costs and directors' remuneration

The Company has no employees, other than the directors, who did not receive any remuneration during the year (2020: nil). The parent company provided all management services. The Company did not provide Directors and Officers Liability insurance during the year (2020: nil).

4 Taxation

a) Current taxation

There was no tax charge during the year. Applicable expenditures will be accumulated for offset against future charges. The reasons for the difference between the actual tax credit for the year and the standard rate of corporation tax in the United Kingdom applied to losses for the year are as follows:

	2021 £000	2020 £000
(Loss) / profit for the year	-	(233)
(Loss) / profit before taxation	-	(233)
Expected tax charge based on the standard rate of United Kingdom corporation tax at the domestic rate of 40% (2020: 40%)	-	(93)
Difference in tax rates	157	319
Excess taxable allowances	(2,833)	(1,933)
	-	-
Disposal	-	-
Unrecognised taxable losses carried forward	2,676	1,707
Total taxation expense	-	-

IOG UK Limited

Notes forming part of the financial statements for the year ended 31 December 2021 *(continued)*

b) Deferred taxation

Due to the nature of the Company's exploration activities there is a long lead time in either developing or otherwise realising exploration assets. The amount of deductible temporary differences, unused tax losses and unused tax credits for which no deferred tax asset is recognised in the statement of financial position is £77.4 million (2020: £53 million). Included within this figure are accelerated capital allowances of £41.9 million (2020: £17.7m).

The Company has not recognised a deferred tax asset at 31 December 2021 on the basis that the Company would expect the point of recognition to be when the Company has some level of production history showing that the Company is making profits in line with the underlying economic model which would support the recognition.

The company has carried forward ring fence tax losses of £71.1m (2020: £ 46.4m) which relate to specific assets of the Company and are also increased with capital expenditure supplements.

IOG UK Limited

Notes forming part of the financial statements for the year ended 31 December 2021 (continued)

5 Property, plant and equipment

	2021 £000	2020 £000
Development and production assets		
<i>At cost</i>		
At beginning of year	17,760	10,001
Additions	24,196	7,759
At end of the year	41,956	17,760
There has been no impairment recognised historically and none during the current period		
At beginning of year	17,760	10,001

The new technical work generated an updated view on the structural framework and top reservoir geometry of the Southwark field, resulting in an improved understanding of the location of the bounding faults separating Southwark from the Leman gas field to the south. This has resulted in a reduction in Gross Rock Value (GRV) in this southwestern area of the field and consequently the previous gross 1P/2P/3P management estimates have reduced from 61.2/94.2/137.7 to 46.3/71.2/104.7 BCF. The impairment assessment has been performed on this field and recoverable amounts determined as the higher of the fair value less costs to sell and value in use. The value in use is determined from estimated future net cash flows, being the present value of the future cash flows expected to be derived from production of commercial reserves from this field and based on this assessment Southwark field is not impaired.

6 Current liabilities

	2021 £000	2020 £000
Advances from parent company	16,451	6,766
Accruals	5,088	465
Operator advance account	7,150	3,819
	28,689	11,050

The parent company has undertaken not to request repayment of advances until the Company has sufficient resources to make payment.

Accruals at 31 December reflect the value of work done undertaken for the year to 31 December, which remains unbilled by vendors and suppliers as at 31 December.

Operator advance accounts represent balances held on behalf of joint operating partner to be used against future expenditure.

IOG UK Limited

Notes forming part of the financial statements for the year ended 31 December 2021 (continued)

7 Non-current liabilities

	2021 £000	2020 £000
Opening balance on 01/01/2021	1,200	-
Decommissioning provision movement	6,556	1,200
Closing balance on 31/12/2021	7,757	1,200

The site decommissioning and restoration obligation for Southwark field is specified in the license agreement with approvals from the OGA. An internal assessment has been made at FDP and based on this the decommissioning costs are estimated to be £7.5 million nominal value (IOG net share 50%). As per the current long-term plans of IOG this asset will be in use until 2038 with decommissioning expected the year after in 2039.

The Company has obligations in respect of decommissioning a suspended well on the Elland Licence P039. A full decommissioning estimate for the Vulcan Satellites asset remains uncertain until all development infrastructure has been installed and production volumes and time to abandonment has been considered. As per Note 1, the current estimate for abandonment of the Elland suspended well of £1.2 million (IOG net share 50%).

8 Equity share capital

	Shares Number	Share capital £000
<i>Authorised, allotted, issued and fully paid Ordinary shares of £1 each</i>		
At 1 January 2021	4,180,100	4,180
At 31 December 2021	4,180,100	4,180

9 Restricted cash, Cash and cash equivalents

	2021 £000	2020 £000
Cash at bank and in hand	-	-
Restricted cash	100	100

IOG UK Limited

Notes forming part of the financial statements for the year ended 31 December 2021 *(continued)*

10 Financial instruments

Significant accounting policies

Details of the significant accounting policies in respect of financial instruments are disclosed in Note 1.

Financial risk management

The Board seeks to minimise its exposure to financial risk by reviewing and agreeing policies for managing each financial risk and monitoring them on a regular basis. At this stage, no formal policies have been put in place to hedge the Company's activities against the exposure to currency risk or interest risk and no derivatives or hedges were entered during the year.

General objectives, policies and processes

The Board has overall responsibility for the determination of the Company's risk management objectives and policies and, whilst retaining ultimate responsibility for them, it has delegated the authority for designing and operating processes that ensure the effective implementation of the objectives and policies to the Company's finance function. The Board receives regular reports from the Chief Financial Officer through which it reviews the effectiveness of the processes put in place and the appropriateness of the objectives and policies it sets.

The Company is exposed through its operations to the following financial risks:

- Liquidity risk;
- Cash flow interest rate risk; and
- Foreign exchange risk

The overall objective of the Board is to set policies that seek to reduce these risks as far as possible without unduly affecting the Company's competitiveness and flexibility. Further details regarding these policies are set out below:

Principal financial instruments

The principal financial instruments used by the Company, from which financial instrument risk may arise are as follows:

- Intercompany advances
- Trade debtors
- Trade and other payables
- Operator advance accounts
- Restricted cash

IOG UK Limited

Notes forming part of the financial statements for the year ended 31 December 2021 (continued)

10 Financial instruments (continued)

Principal risks

Liquidity risk

The Company holds a decommissioning deposit recognised as restricted cash, but is funded entirely by its parent company and therefore has no liquidity risk separate from that of its parent company. Rolling cash forecasts identifying the liquidity requirements of the Company are produced frequently. These are reviewed regularly by management and the Board and then passed to its parent company to ensure that sufficient financial resources are made available.

	6 months or less £000	Greater than 6 months, less than 12 months £000	Greater than 12 months £000	Total undiscounted £000	Carrying amount £000
31 December 2021					
Current financial liabilities					
Advances from parent	16,451	-	-	16,451	16,451
Accruals	5,088	-	-	5,088	5,088
Operator advance accounts	7,150			7,150	7,150
	<u>28,689</u>	<u>-</u>	<u>-</u>	<u>28,689</u>	<u>28,689</u>
31 December 2020					
Current financial liabilities					
Advances from parent	6,766	-	-	6,766	6,766
Accruals	465	-	-	465	465
Operator advance accounts	3,819			3,819	3,819
	<u>11,050</u>	<u>-</u>	<u>-</u>	<u>11,050</u>	<u>11,050</u>

Cash flow interest rate risk

Advances from the parent company are non-interest bearing. Variations in commercial interest rates would have no impact upon the Company's result for the year ended 31 December 2021 (2020: nil). The Company holds operator advance balances on behalf of joint venture partner. These balances originate from the timing differences between the forecasted and actual expenditure. These balances are non-interest bearing.

IOG UK Limited

Notes forming part of the financial statements for the year ended 31 December 2021 (continued)

10 Financial instruments (continued)

Principal risks (continued)

Foreign exchange risk

The Company carried limited exposure to foreign exchange risk during the period to 31 December 2021 (2020: nil). Its costs are incurred almost entirely in Pounds Sterling and it has no current revenues. It is the Company's policy to enter transactions in its functional currency wherever possible and it monitors any currency exposures regularly. The Company considers this minimises any foreign exchange exposure. Consequently, no formal policies have been put in place in order to hedge the Company's activities to the exposure to currency risk.

Capital management

The primary objective of the Company's capital management is to maintain appropriate levels of funding to meet the commitments of its forward programme of exploration and development expenditures, and to safeguard the entity's ability to continue as a going concern and create shareholder value.

11 Financial commitments and contingent liabilities

The Company has authorised and committed capital expenditure in the current year as part of the development work programme for the licences in which it participates:

	2021 £000	2020 £000
Authorised to commit	187,600	-
Actual costs – Contracted & committed	89,918	290
	<hr/>	<hr/>
Balance commitment	97,682	290
	<hr/>	<hr/>

All 2021 contracted amounts relate to Phase 1 activity associated with development of Southwark field. 2020 contracted amounts related to contracted UKCS Licence Fees, associated 2020 OGA Levy payments and project management commitments only.

12 Related party transactions

Except for funds received from the ultimate parent company for transactions paid on behalf of the Company as disclosed in Note 7, there were no additional related party transactions in the year.

13 Ultimate parent company

The Company's immediate parent undertaking is IOG plc, a company registered in the United Kingdom and whose registered address is 60 Gracechurch Street, London EC3V 0HR. This parent undertaking is the holding company of both the largest and the smallest group for which group accounts are prepared and of which the Company is a member. Both these parent company and group accounts can be found on the parent company website at www.iog.co.uk.

IOG UK Limited

Notes forming part of the financial statements for the year ended 31 December 2021 *(continued)*

14 Subsequent events

The key events after 31 December 2021 are as follows:

On 3 May 2022, it was further announced that drilling of the two development wells, Southwark east and west, is scheduled to continue into Q4 2022.

On 20 June 2022 Drilling of the Southwark East production well has continued into the reservoir section. The well has reached Total Depth at 14,330ft MD and the production liner is being prepared to be run. The Noble Hans Deul rig will then drill the Southwark West well (at which the top-hole section had already been drilled earlier in the campaign). Both wells are due to be completed by Q4.

Subsea and pipelay work has gone to plan in Q2, ensuring progress continues towards Southwark First Gas in Q4. Notably, the 6km 24" extension section from the Saturn Banks Pipeline System (SBPS) to the Southwark platform was successfully installed by the Seven Borealis S-lay vessel.

The Seven Kestrel diving support vessel (DSV) has also installed the necessary mechanical connectors at both ends of SBPS outer section – another important element of the programme. The Kestrel is currently installing the spools to connect the 6km extension to the Southwark platform. The final closing spools will be installed later in the hook-up and commissioning programme, which is currently underway with risers being welded on the Southwark platform.

After Southwark, the Noble Hans Deul is contracted to drill both the Goddard and Kelham North/Central appraisal wells in direct continuation at the same attractive day-rate as the Phase 1 wells. Both the geophysical and geotechnical site survey campaigns for the Goddard and Kelham wells are complete, while planning and procurement for both wells is also well underway.