Registration number: 09121775

INEOS Upstream Limited

Annual Report and Financial Statements

for the Year Ended 31 December 2018

INEOS Upstream Limited

Contents

INEOS Upstream Limited

Company Information

Directors	Anne Bowden
	David Brooks
	Tom Pickering
	Geir Tuft
	Gareth Anderson
Company secretary	Gemma McLucas
	Cordelia Pace
Registered office	Anchor House 15-19 Britten Street London SW3 3TY
Solicitors	Slaughter and May 1 Bunhill Row London EC1Y 8YY
Bankers	Barclays Bank PLC 1 Churchill Place London E14 5HP
Independent Auditors	PricewaterhouseCoopers LLP Chartered Accountants and Statutory Auditors Central Square South Orchard Street Newcastle Upon Tyne NE1 3AZ

INEOS Upstream Limited

Strategic Report for the Year Ended 31 December 2018

The directors present the strategic report of INEOS Upstream Limited ("the Company") for the year ended 31 December 2018.

Fair review of the business

The focus of the business continued to be on two sites (Tinker Lane and Springs Road), both operated by our joint venture partner IGas. The first of these exploratory wells is at Tinker Lane at which Drilling commenced on 27 November 2018 and concluded on the 17 December 2018. The company holds a 45% working interest in these operations. Springs Road 2 commenced on 22 January 2019. Core and data gathered during drilling continue to be processed and analysed by the partnership, with results having been received during the first half of year 2019. The Company's press releases for Tinker Lane, indicated encouraging initial gas readings.

The Company's joint venture partner IGas's press release for Springs Road on 11 March 2019, updated on findings. A hydrocarbon bearing shale sequence of over 250 metres was encountered within the upper and lower Bowland Shale. Significant gas indications were observed throughout the shale section and additionally within sands in the Millstone Grit sequence. The JV have now completed this phase of data acquisition which included the recovery of approximately 150 metres of shale core and an extensive wireline logging program across the Millstone Grit, and Upper and Lower Bowland Shale. An IGas press release of 27th June 2019 made publicly known key elements of the results in respect of key Shale Play attributes.

The initial gas readings provide an encouraging technical perspective with which to view the wider basin; however the section was considered too thin for the site to be considered as a host to further horizontal drilling and hydraulic fracture stimulation.

Petrophysical and core analysis is currently being conducted, which will give management further insight into the resource potential and shale characterisation that will be utilised for future appraisal and development of the wider East Midlands area. Additionally a video was released demonstrating effervescing gas, with comment made to the strong drilling performance experienced.

During 2018, the two INEOS planning applications were appealed through non determination by Derbyshire County Council and Rotherham Metropolitan Borough Council for the exploratory core well sites, Harthill (January 2018) and Bramley Moor (February 2019), both received consent at appeal, after an Inspector led planning inquiry. (Harthill 7 June 2018; Bramley Moor 16 August 2018). A third planning application (Woodsetts) was rejected in March 2018, an appeal was lodged and was heard by an Inspector during weeks of 10th and 17th of June. Shortly after the appeal hearing was adjourned the planning application was called in for decision by the Secretary of State for MHCLG, James Brockenshire on 27th June.

As at 31 December 2018, the Company has net liabilities of £128,293,000 (2017: £38,362,000).

Exploration and Evaluation costs written off were £58 million (2017: nil) and there was an impairment of £18 million (2017: nil) to Oil and Gas Properties. The unsuccessful Exploration and Evaluation and impairment totalling £74 million related to licenses within the Cheshire region, Scotland licenses and East Midlands licenses, where long-term tests determined that there was no potential for a commercial development. As part of our ongoing active portfolio management, we are continually reviewing our acreage positions and will continue to seek to relinquish non-core licences or impair licences where the carrying value cannot be supported.

The strategic aim of the Company is to explore for hydrocarbons in the UK and generally help promote and develop the safe extraction of unconventional gas in the UK. The Company aspires to quickly but deliberately explore onshore opportunities in the UK and rapidly develop producing assets where that exploration is successful. The Company also continues to incur costs relating to potential offshore acquisitions.

Key performance indicators
The Company's key financial and other performance indicators during the year were as follows:

	Unit	2018	2017
Normalised Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA)*	£000	(7,727)	(6,252)
Loss for the financial year	£000	(89,931)	(10,659)

The main KPI of the business is earnings before interest, taxation, depreciation and amortisation (EBITDA). Management closely monitors EBITDA compared to budget and prior year. Details of actual and comparative EBITDA results are provided below:

	2018 £ 000	2017 £ 000
Operating loss	(83,858)	(6,257)
Depreciation and amortisation charge for the year	4	5
Impairments	17,854	-
Unsuccessful exploration and evaluation	58,269	-
Loss on sale of assets	4	-
EBITDA	(7,727)	(6,252)

* The normalised EBITDA has been adjusted for non-recurring expenses such as impairment loss, unsuccessful exploration and evaluation and gain/loss on disposals.

Given the straightforward nature of the business, the Company's directors are of the opinion that analysis using KPIs is not necessary for an understanding of the development, performance or position of the business. The development, performance and position of INEOS Industries Limited which includes the Company, are discussed in INEOS Industries Limited's annual report which does not form part of this report.

Principal risks and uncertainties
From the perspective of the Company, the principal risks and uncertainties are integrated with the principal risks of the group and are not managed separately. Accordingly, the principal risks and uncertainties of INEOS Industries Limited which include those of the Company are discussed in the group's annual report which does not form part of this report.

Approved by the Board on 19 September 2019 and signed on its behalf by:

....
Tom Pickering
Director

INEOS Upstream Limited

Directors' Report for the Year Ended 31 December 2018

The directors present their report and the audited financial statements for the year ended 31 December 2018.

Directors' of the company
The directors, who held office during the year, were as follows:

Anne Bowden

David Brooks (appointed 6 December 2018)

Jonathan Ginns (resigned 6 February 2019)

Tom Pickering

Andrew Pizzey (appointed 6 December 2018 and resigned 1 June 2019)

Geir Tuft

Gareth Beamish (resigned 31 July 2018)

Lynn Calder (resigned 6 December 2018)

Ronald Coyle (resigned 6 December 2018)

The following director was appointed after the year end:

Gareth Anderson (appointed 1 June 2019)

Principal activities
The principal activity of the Company is the exploration and evaluation of land leading to development and ultimately production of shale gas.

Dividends
The directors do not propose the payment of a dividend (2017 - £Nil).

Financial instruments

Objectives and policies

The Company's operations expose it to a variety of financial risks that include the effects of credit risk, liquidity risk and interest rate risk. The Company has in place a risk management programme that seeks to limit the adverse effects on the financial performance of the Company where appropriate. The Company is funded internally by the INEOS group and therefore has no direct exposure to liquidity or debt market risk. Interest rate exposures are managed on a group basis and are fully disclosed in the consolidated financial statements of INEOS Industries Limited.

Future developments
Future developments are discussed in the strategic report.

Going concern
The directors believe that preparing the financial statements on the going concern basis is appropriate due to the continued financial support of the parent company INEOS Industries Limited. The directors have received confirmation that INEOS Industries Limited intends to support the Company for at least one year after these financial statements are signed.

Qualifying third-party indemnity provision
The directors are all covered by a Directors' and Officers' Liability Insurance policy maintained by the Company with a qualifying third party insurance company which was maintained throughout the financial year and is still in place as at the date of the approval of these financial statements.

Statement of directors' responsibilities in respect of the financial statements

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

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

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

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

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006.

Directors' confirmations

In the case of each director in office at the date the Directors' Report is approved:

- so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware; and
- they have taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information.

Approved by the Board on 19 September 2019 and signed on its behalf by:

Tom Pickering
Director

Independent Auditors' Report to the Members of INEOS Upstream Limited

Report on the financial statements

Our Opinion

In our opinion, INEOS Upstream Limited's financial statements (the "financial statements"):

- give a true and fair view of the state of the company's affairs as at 31 December 2018 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), which comprise: the Balance Sheet as at 31 December 2018; the Profit and Loss Account, the Statement of Comprehensive Income, the Statement of Changes in Equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' 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 remained independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Conclusions relating to going concern

ISAs (UK) require us to report to you when:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

We have nothing to report in respect of the above matters.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the company's ability to continue as a going concern. For example, the terms on which the United Kingdom may withdraw from the European Union are not clear, and it is difficult to evaluate all of the potential implications on the company's trade, customers, suppliers and the wider economy.

Independent Auditors' Report to the Members of INEOS Upstream Limited (continued)

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, 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 audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. 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 based on these responsibilities.

With respect to the Strategic Report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 December 2018 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of directors' responsibilities in respect of the financial statements set out on page 5, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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.

Auditors' 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 auditors' 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.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Independent Auditors' Report to the Members of INEOS Upstream Limited (continued)

Use of this report

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of directors' remuneration specified by law are not made; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Ian Marsden

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Ian Marsden (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Newcastle upon Tyne

19 September 2019

INEOS Upstream Limited

Profit and Loss Account for the Year Ended 31 December 2018

	Note	2018 £ 000	2017 £ 000
Revenue		-	-
Cost of sales		(76,031)	-
Gross loss		(76,031)	-
Administrative expenses		(7,735)	(6,257)
Impairment loss on investments	8	(92)	-
Operating loss	4	(83,858)	(6,257)
Interest receivable and similar income	7	487	25,086
Interest payable and similar expenses	9	(6,560)	(29,488)
		(6,073)	(4,402)
Loss before tax		(89,931)	(10,659)
Tax on loss	10	-	-
Loss for the financial year		(89,931)	(10,659)

The above results were derived from continuing operations.

The notes on pages 13 to 31 form an integral part of these financial statements.

INEOS Upstream Limited

Statement of Comprehensive Income for the Year Ended 31 December 2018

	2018 £ 000	2017 £ 000
Loss for the financial year	(89,931)	(10,659)
Total comprehensive loss for the financial year	(89,931)	(10,659)

The notes on pages 13 to 31 form an integral part of these financial statements.

INEOS Upstream Limited

(Registration number: 09121775)
Balance Sheet as at 31 December 2018

	Note	31 December 2018 £ 000	31 December 2017 £ 000
Fixed assets			
Intangible assets	11	52,943	84,562
Tangible assets	12	364	150
Investments	14	-	92
		53,307	84,804
Current assets			
Stocks	15	964	-
Debtors	16	2,514	2,552
Cash at bank and in hand	17	3,994	12,627
		7,472	15,179
Creditors: Amounts falling due within one year	18	(6,879)	(13,776)
Net current assets		593	1,403
Total assets less current liabilities		53,900	86,207
Creditors: Amounts falling due after more than one year	19	(164,194)	(124,569)
Provisions for liabilities	20	(17,999)	-
Net liabilities		(128,293)	(38,362)
Capital and reserves			
Called up share capital	21	-	-
Retained deficit		(128,293)	(38,362)
Total shareholders' deficit		(128,293)	(38,362)

The financial statements on pages 9 to 31 were approved by the Board on 19 September 2019 and signed on its behalf by:

Tom Pickering

Director

INEOS Upstream Limited

Statement of Changes in Equity for the Year Ended 31 December 2018

	Share capital £ 000	Retained deficit £ 000	Total Shareholders' deficit £ 000
At 1 January 2018	-	(38,362)	(38,362)
Loss for the financial year	-	(89,931)	(89,931)
Total comprehensive loss	-	(89,931)	(89,931)
At 31 December 2018	-	(128,293)	(128,293)

	Share capital £ 000	Retained deficit £ 000	Total shareholders' deficit £ 000
At 1 January 2017	-	(27,703)	(27,703)
Loss for the financial year	-	(10,659)	(10,659)
Total comprehensive loss	-	(10,659)	(10,659)
At 31 December 2017	-	(38,362)	(38,362)

The notes on pages 13 to 31 form an integral part of these financial statements.

1 General information

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

The address of its registered office is:
Anchor House
15-19 Britten Street
London
SW3 3TY
United Kingdom

These financial statements were authorised for issue by the Board on 19 September 2019.

2 Accounting policies

Summary of significant accounting policies and key accounting estimates
The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements.

Basis of preparation
These financial statements were prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework ("FRS 101") and in accordance with the Companies Act 2006.

The Company is exempt by virtue of Section 400 of the Companies Act 2006 from the requirement to prepare consolidated financial statements. These financial statements present information about the Company as an individual undertaking and not about its group.

The financial statements are prepared on the historical cost basis.

The Company's financial statements are presented in British pound sterling (£), which is also the Company's functional currency. All the amounts in the financial statements have been rounded to the nearest £'000.

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

2 Accounting policies (continued)

Summary of disclosure exemptions

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

• Paragraph 91 to 99 of IFRS 13, 'Fair value measurement' (disclosure of valuation techniques and inputs used for fair value measurement of assets and liabilities).
• Paragraph 38 of IAS 1, 'Presentation of financial statements' comparative information requirements in respect of:
I. paragraph 79(a)(iv) of IAS 1;
II. paragraph 73(e) of IAS 16 Property, plant and equipment;
III. paragraph 118(e) of IAS 38 Intangible assets (reconciliations between the carrying amount at the beginning and end of the period)
• The following paragraphs of IAS 1, 'Presentation of financial statements':
– 10(d), (statement of cash flows)
– 16 (statement of compliance with all IFRS),
– 38A (requirement for minimum of two primary statements, including cash flow statements),
– 38B-D (additional comparative information),
– 111 (cash flow statement information), and
– 134-136 (capital management disclosures)
• IAS 7, 'Statement of cash flows'
• Paragraph 30 and 31 of IAS 8 'Accounting policies, changes in accounting estimates and errors' (requirement for the disclosure of information when an entity has not applied a new IFRS that has been issued but is not yet effective)
• Paragraph 17 of IAS 24, 'Related party disclosures' (key management compensation)
• The requirements in IAS 24, 'Related party disclosures' to disclose related party transactions entered into between two or more members of a group.

Going concern

The Company meets its day-to-day working capital requirements through its intercompany loan facility. After making enquiries, the directors have a reasonable expectation that the Company has adequate resources available to continue in operational existence for the foreseeable future as INEOS Industries Limited has confirmed that it intends to support the Company for at least one year after these financial statements are signed. The Company therefore continues to adopt the going concern basis in preparing its financial statements.

2 Accounting policies (continued)

Changes in accounting policy

None of the standards, interpretations and amendments effective for the first time from 1 January 2018 have had a material effect on the financial statements.

The Company has adopted IFRS 9 Financial Instruments issued in July 2014 with a date of initial application of 1 January 2018. The requirements of IFRS 9 represent a significant change from IAS 39 Financial Instruments: Recognition and Measurement. As a result of the adoption of IFRS 9, the Company adopted consequential amendments to IAS 1 Presentation of Financial Statements, which requires material impairment of financial assets to be presented in a separate line item in the profit and loss account and other comprehensive income. The Company has taken the exemption to not apply IFRS 9 retrospectively, as such the comparative figures from 1 January 2017 to 31 December 2017 have not been restated.

(a) Classification and measurement

The Company has not identified any significant impact on its balance sheet or equity on applying the classification and measurement requirements of IFRS 9. Loans as well as trade receivables are held to collect contractual cash flows and are expected to give rise to cash flows representing solely payments of principal and interest. The Company analysed the contractual cash flow characteristics of those instruments and concluded that they meet the criteria for amortised cost measurement under IFRS 9. Therefore, reclassification for these instruments is not required. Application of IFRS 9 had no impact on financial liabilities.

(b) Impairment

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' (ECL) model. The new impairment model applies to financial assets measured at amortised cost, contract assets and debt investments at fair value through other comprehensive income (FVOCI) (excluding equity instruments not tested for impairment). The Company applies the simplified approach when providing for expected credit losses prescribed by IFRS 9 for its trade receivables. Given the short-term nature of the trade receivables, application of the ECL model had no significant impact on transition. Intercompany receivables are considered as low risk and are not provided for impairment by the Company.

Revenue recognition

Revenue, which is stated net of value added tax, represents oil and gas products sold to third parties. Contracts for goods and services are analysed to determine the distinct performance obligations against which revenue should be recognised. The amount to be recognised is determined from the standalone selling prices for goods and services, allocated to the performance obligations.

Revenue is recognised when (or as) the performance obligations are satisfied by transferring a promised good or service to a customer. For sales resulting from hydrocarbon production, this generally occurs when the product is physically transferred into a vessel, pipe or other delivery mechanism. Revenue resulting from hydrocarbon production from properties in which the Company has an interest with partners in joint arrangements is recognised on the basis of the Company's volumes lifted and sold.

Other income relating to gas production, included in revenue arises from tariffs for third party use of owned pipelines and infrastructure. Tariffs are recognised at the end of the month for pipeline movements during the month and are based on quantity transported through the pipeline.

2 Accounting policies (continued)

Interest receivable and interest payable
Interest payable includes interest payable and other finance charges, unwinding of the discount on provisions, and net foreign exchange losses. Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that takes a substantial time to be prepared for use are capitalised as part of the cost of that asset. Other interest receivable and similar income include interest receivable on funds invested and net foreign exchange gains.

Interest income and interest payable is recognised in the profit and loss account as it accrues, using the effective interest method. Foreign currency gains and losses are reported on a net basis.

Foreign currency transactions and balances
Transactions in foreign currencies are translated to the functional currency of the Company at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the period end date are retranslated to the functional currency at the foreign exchange rate ruling at that date. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are retranslated to the functional currency at foreign exchange rates ruling at the dates the fair value was determined. Foreign exchange differences arising on translation are recognised in the statement of comprehensive income.

Non-monetary items measured in terms of historical cost in a foreign currency are not retranslated.

Tax
Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the profit and loss account except to the extent that it relates to items recognised directly in equity or other comprehensive income, in which case it is recognised directly in equity or other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the period end date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the period end date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised.

2 Accounting policies (continued)

Tangible assets

Property, plant and equipment are stated at historical cost less accumulated depreciation and accumulated impairment losses. Where parts of an item of tangible fixed assets have different useful lives, they are accounted for as separate items of tangible fixed assets.

The carrying amount of tangible fixed assets is reviewed for impairments when events or changes in circumstances indicate that the carrying value may not be recoverable. Where an indicator of impairment exists, the Company makes an estimation of recoverable amount, which is the higher of the asset's fair value less cost to sell and value in use. Where the carrying amount of an asset exceeds its recoverable amount, the asset is impaired and written down to its recoverable amount.

Assets are derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset.

Oil and gas properties

Oil and gas properties are carried at cost, net of accumulated depletion and accumulated impairment losses. Depletion and depreciation of the capitalised costs for producing oil and gas properties is provided by the unit-of-production method based upon estimated recoverable oil and gas reserves. Assets are derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset.

Depreciation

Depletion and depreciation of the capitalised costs for producing oil and gas properties is provided by the unit-of-production method based upon estimated recoverable oil and gas reserves. The unit-of-production method used by the Company takes the current year's production as a proportion of the sum of the estimated recoverable reserves at the end of the prior year and current year production, and applies this proportion to the undepleted cost to determine a charge for the year.

Asset class	**Depreciation method and rate**
Oil and gas properties	Unit of Production

2 Accounting policies (continued)

Intangible assets
Exploration & Evaluation

The Company follows a successful efforts accounting policy for oil and gas assets. The success or failure of each exploration or appraisal effort is assessed on a well-by-well basis. Exploration costs prior to obtaining the licence interest are charged to the profit and loss account as they are incurred.

Exploration and evaluation expenditure associated with an exploration well, including related exploration and evaluation activities are initially capitalised as intangible assets. If the prospects are determined to be successful on completion of evaluation and the project is initially sanctioned by management, the relevant expenditure including licence acquisition costs are capitalised as oil and gas properties.

If the prospects are subsequently determined to be unsuccessful, and the asset is impaired, the associated costs are expensed in the period in which that determination is made.

Investments
Investments in subsidiary undertakings are recorded at cost, which is the fair value of the consideration paid, less accumulated impairment losses.

Stocks
Stocks consist of petroleum, condensate, liquid petroleum gas and materials. Stocks are valued at the lower of cost and net realisable value. Cost is determined using a weighted average of purchase prices. Provision is made for obsolete, slow-moving and defective items where appropriate.

Long lead items and other special material, which are only purchased for a particular property or approved project are classified as property, plant and equipment.

Provisions
A provision is recognised in the balance sheet when the Company has a present legal or constructive obligation as a result of a past event, that can be reliably measured and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects risks specific to the liability.

Decommissioning and restoration

The Company makes full provision for the future costs of the decommissioning and restoration of oil and gas properties on a discounted basis. The decommissioning and restoration provision relates to total cost of plugging and abandoning the existing wells and any costs associated with returning the sites to their original use. A corresponding property, plant and equipment asset of an amount equivalent to the provision is also recognised. The asset is depleted using the unit of production method. The unwinding of discount in the net present value of the total expected cost is treated as an interest expense. Changes in the estimates are reflected prospectively over the remaining life of the field.

2 Accounting policies (continued)

Leases

Operating lease payments

Payments (excluding costs for services and insurance) made under operating leases are recognised in the statement of comprehensive income on a straight-line basis over the term of the lease. Lease incentives received are recognised in the statement of comprehensive income as an integral part of the total lease expense.

Finance lease payments

Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. Contingent rents are charged as expenses in the periods in which they are incurred.

Interests in joint ventures (joint operation)

The Company's interests in jointly controlled assets are accounted for by recognising its proportionate share in assets and liabilities from joint ventures, except where as operator the Company takes on the role as independent contractor. In these instances, receivables and payables relating to jointly controlled operations are brought to account on a gross basis. Joint venture expenses and the Company's entitlement to production are recognised on a pro rata basis according to the Company's joint venture interest.

Impairment of non-financial assets

The carrying amounts of the Company's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For intangible assets that have indefinite useful lives or that are not yet available for use, the recoverable amount is estimated each year at the same time.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit").

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its estimated recoverable amount. Impairment losses are recognised in the profit and loss account.

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

2 Accounting policies (continued)

Financial assets and liabilities
Classification
Non-derivative financial instruments comprise trade and other debtors, cash and cash equivalents, loans and borrowings, and trade and other creditors.

Recognition and measurement
Trade and other receivables

Trade and other receivables are recognised initially at fair value plus transaction costs that are directly attributable to the acquisition or issue. Subsequent to initial recognition they are tested for classification as per IFRS 9. If the trade receivables satisfy the criteria for cash flow characteristics test and business model test as per IFRS 9, then they are recognised at amortised cost. If they do not qualify for being recognised at amortised cost they are recognised at fair value through profit and loss.

Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, but exclude any restricted cash. Restricted cash is not available for use by the Company and therefore is not considered highly liquid.

Trade and other payables

Trade payables are obligations to pay for products or services that have been acquired in the ordinary course of business form suppliers. Payables are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not they are presented as amounts falling due after more than one year.

Trade and other payables are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method.

Interest-bearing loans/borrowings

Interest-bearing loans/borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost using the effective interest method. They are included in current assets/liabilities, except for maturities greater than 12 months after the end of the reporting period.

Impairment
The expected credit loss model is applied for recognition and measurement of impairments in financial assets measured at amortised cost. The Company applies the simplified approach when providing for expected credit losses prescribed by IFRS 9 for its trade debtors and contract assets. This approach requires the Company to recognise the lifetime expected loss provision for all trade receivables taking in consideration historical as well as forward looking information. Financial assets which are considered low risk are not provided for impairment by the Company.

An impairment loss in respect of a debtor carried at amortised cost is reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised.

2 Accounting policies (continued)

Exceptional items

The presentation of the Company's results separately identifies the effect of profits and losses on the disposal of businesses, the impairment and the reversal of impairment of non-current assets, the cost of restructuring acquired businesses and the impact of one off events such as legal settlements as exceptional items. Results excluding disposals, impairments, restructuring costs and one off items are used by management and are presented in order to provide readers with a clear and consistent presentation of the underlying operating performance of the Company's ongoing business.

3 Critical accounting judgements and key sources of estimation uncertainty

The Company prepares its financial statements in accordance with FRS 101, which requires management to make judgements, estimates and assumptions which affect the application of accounting policies, and the reported amount of assets, liabilities, income and expenses. Actual results may differ from these estimates. The estimates and assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates change and in any future periods.

The following areas are considered to involve a significant degree of judgement or estimation:

Provisions

Provisions are recognised for the cost of remediation works where there is a legal or constructive obligation for such work to be carried out. Where the estimated obligation arises upon initial recognition of the related asset, the corresponding debit is treated as part of the cost of the related assets and depreciated over its estimated useful life.

Other provisions are recognised in the year when it becomes probable that there will be future outflow of funds resulting from past operations or events that can be estimated with reasonable accuracy. The timing of the recognition requires the application of judgement to existing facts and circumstances, which can be subject to change. Estimates of the amount of provisions recognised are based on current legal and constructive requirements, technology, and prices. Because actual outflows can differ from the estimate due to changes in laws, regulations, public expectation, technology, prices and can take place many years in the future, the carrying amounts of the provisions are regularly reviewed and adjusted to take account of such changes.

The decommissioning of oil and gas assets may not be due to occur for many years into the future. Consequently, judgement is required in relation to the estimated cash flows, removal date, environmental legislation, inflation and discount rate used to calculate present value.

The nature and amount of provisions included in the financial statements are detailed in note 20.

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

Impairment
An impairment test requires an assessment as to whether the carrying value of assets can be supported by its recoverable amount. The recoverable amount is calculated based on the net present value of future cash flows derived from the relevant assets, using cash flow projections which has been discounted at an appropriate discount rate.

In calculating the net present value of the future cash flows, certain assumption and estimates are required to be made in respect of highly uncertain matters. For oil and gas assets, the recoverable amount is calculated using valuation techniques and inputs of various estimates including the expected future cash flows based on future production, commodity prices, exchange rates, discount rates and inflation rates.

Depreciation of oil and gas assets
Oil and gas assets held in tangible assets are mainly depreciated on a unit of production basis at a rate calculated by reference to proved developed reserves and incorporating the estimated future cost of developing and extracting those reserves. Future development costs are estimated using assumptions as to the numbers of wells required to produce those reserves, the cost of the wells, future production facilities and operating costs; together with assumptions on oil and gas realisations.

4 Operating loss

Arrived at after charging

	2018 £ 000	2017 £ 000
Depreciation expense (note 12)	4	5
Loss on disposal of assets	4	-
Foreign exchange losses	1	-
Unsuccessful exploration and evaluation	58,269	-
Impairment of assets	17,762	-

5 Auditors' remuneration

	2018 £ 000	2017 £ 000
Audit of the financial statements	28	24

6 Directors and employees

There were no employees with contracts of employment in the name of the Company during the year (2017: none).

None of the Directors received any fees or remuneration for services as a director of the Company during the financial year (2017: none).

7 Interest receivable and similar income

	2018 £ 000	2017 £ 000
Interest income from group undertakings	11	25,086
Net foreign exchange gains	476	-
	487	25,086

8 Impairment loss on investments

	2018 £ 000
Impairment loss on investment in subsidiaries	92

An impairment test was performed on the carrying value of the investment and given the aggregate net liabilities of the entities, the investment was not considered recoverable. The carrying value of the investment was impaired.

9 Interest payable and similar expenses

	2018 £ 000	2017 £ 000
Interest paid to group undertakings	6,560	29,488

10 Tax on loss

Tax charged in the profit and loss account

	2018 £ 000	2017 £ 000
Current taxation		
	-	-

The tax on loss before tax for the year is higher than the standard rate of corporation tax in the UK (2017 - higher than the standard rate of corporation tax in the UK) of 40% (2017 - 40%).

The differences are reconciled below:

10 Tax on loss (continued)

	2018 £ 000	2017 £ 000
Loss before tax	(89,931)	(10,659)
Corporation tax at standard rate	(35,972)	(4,264)
Increase from effect of expenses not deductible in determining taxable loss	2,807	1,758
Decrease from tax losses for which no deferred tax asset was recognised	33,165	2,506
Total tax charge/(credit)	-	-

The Company had not commenced trade at the balance sheet date. When trade does commence, the Company's trading activities are expected to be within the UK oil and gas ring fence regime, with tax relief for qualifying pretrading expenditure available at that time. The applicable ring fence tax rate during the year was 40%, comprising 30% ring fence corporation tax and 10% supplementary charge. These were also the substantively enacted rates at the balance sheet.

The Company has not provided deferred tax on losses of approximately £40,745,000 (2017: £8,209,000) which are available to offset against future trading profit. The directors consider that the Company should not recognise any deferred tax asset as there is insufficient certainty over the future utilisation of its deferred tax assets.

11 Intangible assets

	Exploration and evaluation £ 000
Cost	
At 1 January 2018	84,562
Additions	26,650
Unsuccessful exploration and evaluation	(58,269)
At 31 December 2018	52,943
Carrying amount	
At 31 December 2018	52,943
At 31 December 2017	84,562

12 Tangible assets

	Land and buildings £ 000	Oil and gas properties £ 000	Total £ 000
Cost			
At 1 January 2018	130	26	156
Additions	-	18,000	18,000
Disposals	-	(27)	(27)
At 31 December 2018	130	17,999	18,129
Accumulated depreciation and impairment			
At 1 January 2018	-	6	6
Charge for the year	-	4	4
Eliminated on disposal	-	(7)	(7)
Impairment	-	17,762	17,762
At 31 December 2018	-	17,765	17,765
Carrying amount			
At 31 December 2018	130	234	364
At 31 December 2017	130	20	150

13 Joint operations

Joint control is defined as "the contractually agreed sharing of control of an arrangement, which exist only when the decisions about the relevant activities require the unanimous consent of the parties sharing controls". All of the joint operations of the Company are subject to Joint Operating Agreements (JOAs) which fall into this category and where the participants in the agreements are entitled to a share of all the assets, and obligations of all the liabilities of the operations, rather than a share of the net assets.

The contractual agreement for the licence interests in which the Company has an investment do not typically convey control of the underlying joint arrangement to any one party, even where one party has a greater than 50% equity ownership of the area of interest.

The Company's material joint operations as at 31 December 2018 are:

Block	Licence	Operator	INEOS Upstream Limited Net % Interest
SJ59a	EXL273	INEOS Upstream Limited	85%
SJ75, SJ76	PEDL 293	INEOS Upstream Limited	70%

13 Joint operations (continued)

Block	Licence	Operator	INEOS Upstream Limited Net % Interest
SJ64, SJ65	PEDL 295	INEOS Upstream Limited	70%
SJ58b, SJ58c, SJ58d	PEDL 145	INEOS Upstream Limited	60%
SJ68, SJ60e, SJ79	PEDL 193	INEOS Upstream Limited	60%
SJ37, SJ27, SJ28	PEDL 184	Island Gas Limited	50%
SJ47	PEDL 190	Island Gas Limited	50%
SK68b, SK58b	PEDL 200	Dart Energy (East England) Limited	45%
SK68a	PEDL 012	IGas Energy Development Limited	45%
SK69	PEDL 139	Island Gas Limited	40%
SK78f, SK79a	PEDL 140	Island Gas Limited	40%
SE74, SE84	PEDL 287	Cuadrilla South Cleveland Limited	30%
SE75	PEDL 342	Cuadrilla South Cleveland Limited	30%
SE85, SE95	PEDL 288	Cuadrilla South Cleveland Limited	30%
TA5, TA15	PEDL 346	Cuadrilla South Cleveland Limited	30%
SE31c, SE41e	PEDL 273	Island Gas Limited	30%
SK49, SK59b	PEDL 305	Island Gas Limited	30%
SK87c, SK88b, SK89e	PEDL 316	Island Gas Limited	30%
SE54a, SE55, SE56	PEDL 146	IGas Energy Development Limited	25%

13 Joint operations (continued)

Block	Licence	Operator	INEOS Upstream Limited Net % Interest
SK87f, SK88h, SK88i, SK97a, SK98f, SK98g	PEDL 210	Dart Energy (East England) Limited	25%
SE51a B, SE51a C, SE51a D	EXL288	IGas Energy Development Limited	25%
SJ36a	PEDL 147	IGas Energy Development Limited	75%
SJ46	PEDL 189	Dart Energy (East England) Limited	75%

14 Investments

Subsidiaries	£ 000
Cost	
At 1 January 2018	92
At 31 December 2018	92
Impairment provision	
Provision	92
At 31 December 2018	92
Carrying amount	
At 31 December 2018	-
At 31 December 2017	92

Details of the subsidiaries as at 31 December 2018 are as follows:

Name of subsidiary	Principal activity	Registered office	Proportion of ownership interest and voting rights held 2018	2017
INEOS 120 Energy Limited	A holding company that has investments in subsidiary undertakings operating in the oil and gas industry	Anchor House, 15-19 Britten Street, London, SW3 3TY United Kingdom	100%	100%

14 Investments (continued)

Name of subsidiary	Principal activity	Registered office	Proportion of ownership interest and voting rights held 2018	2017
INEOS 120 Power Limited	Dormant	Anchor House, 15-19 Britten Street, London, SW3 3TY United Kingdom	100%	100%
INEOS 120 Exploration Limited	Exploration and evaluation of PEDL 120 leading to development and ultimately production of shale gas	Anchor House, 15-19 Britten Street, London, SW3 3TY United Kingdom	100%	100%

15 Stocks

	31 December 2018 £ 000	31 December 2017 £ 000
Finished goods and goods for resale	964	-

Stocks include an amount of £964,000 (2017 - £Nil) carried at fair value less cost to sell.

16 Debtors

	31 December 2018 £ 000	31 December 2017 £ 000
Trade debtors	374	71
Amounts owed by group undertakings	317	322
Prepayments	669	438
Other debtors	1,154	330
Taxation and social security	-	1,391
	2,514	2,552
Less non-current portion	-	(161)
Total current trade and other debtors	2,514	2,391

16 Debtors (continued)

All trade debtors are due within one year and none are overdue. All trade and other debtors are deemed as low risk and collectible on the basis of established credit management processes such as regular analyses of the credit worthiness of our customers and external credit checks where appropriate for new customers. Trade and other debtors owed by group undertakings are repayable on demand and do not accrue interest.

At 31 December 2017 and 2018 there were no significant trade, group undertakings or other debtors balances not past due that were subsequently impaired.

17 Cash at bank and in hand

	31 December 2018 £ 000	31 December 2017 £ 000
Cash at bank	3,994	12,627

18 Creditors: Amounts falling due within one year

	31 December 2018 £ 000	31 December 2017 £ 000
Trade creditors	174	384
Accrued expenses	4,666	1,884
Other creditors	-	4,314
Amounts owed to group undertakings	2,039	7,194
	6,879	13,776

19 Creditors: Amounts falling due after more than one year

	31 December 2018 £ 000	31 December 2017 £ 000
Non-current loans and borrowings		
Amounts owed to group undertakings	164,194	124,569

Borrowings

Amount owed to group undertakings

The Company has a loan agreement with INEOS Industries Holdings Limited with an interest rate of 4.5%. Interest is payable on a quarterly basis.

20 Provisions for liabilities

	Decommissioning and restoration provisions £ 000
At 1 January 2018	-
Additional provisions	17,999
At 31 December 2018	17,999
Non-current liabilities	17,999

Decommissioning and restoration provisions

The Company has provided for its share of the estimated decommissioning and restoration costs of its exploration sites. Decommissioning is expected to occur after the sites have reached the end of their economic useful life or have been determined to be unfeasible.

21 Called up share capital

Allotted, called up and fully paid shares

	31 December 2018		31 December 2017	
	No.	£	No.	£
Ordinary Shares of £1 each	1	1	1	1

22 Commitments

Capital commitments

The total amount contracted for but not provided in the financial statements was £12,403,000 (2017 - £Nil).

23 Related party transactions

During the year the Company entered into transactions, in the ordinary courses of business, with related parties. The nature and terms of the transactions have been disclosed in notes 6, 7, 8, 9, 14, 16, 18 and 19. The Company has also taken advantage of the exemption under paragraph 8 of Financial Reporting Standard 101 not to disclose transactions with the fellow subsidiaries under common ownership.

24 Parent and ultimate parent undertaking

The company's immediate parent is INEOS Upstream Holdings Limited.

The ultimate parent is INEOS Limited, a company incorporated in the Isle of Man.

The most senior parent entity producing publicly available financial statements, and the smallest and largest group to consolidate these financial statements is INEOS Industries Limited. These financial statements are available upon request from the Company Secretary at Hawkslease, Chapel Lane, Lyndhurst, Hampshire, SO43 7FG, United Kingdom.

The ultimate controlling party is Mr J A Ratcliffe.