Registered Number: 10171798

Sound Energy Meridja Limited

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

Registered Number 10171758

Sound Energy Meridja Limited

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

Directors	G Dempster (Appointed 17 April 2020) B Mitchener (Appointed 16 April 2018 and resigned 31 March 2020) JJ Traynor (Appointed 16 April 2018 and resigned 9 January 2020) M Seghiri (Appointed 24 April 2017) F Lacuha (Appointed 6 January 2020 and resigned 2 March 2020)
Company Number	10171798
Registered Office	1st Floor, 4 Pembroke Road Sevenoaks Kent TN13 1XR
Auditors	Crowe U.K. LLP 55 Ludgate Hill London EC4M 7JW

CONTENTS

The Directors present their report and the accounts for the year ended 31 December 2020.

Principal activities

The Company has a branch in Morocco whose principal activity is the exploration, appraisal and development of oil and gas assets to first production and the operation of producing assets.

Results

The loss for the year, after taxation, amounted to £9,843,000 (2019: £1,516,000). The Directors do not recommend the payment of a dividend.

Going Concern

The Company expects to continue with its exploration, appraisal and development activities for oil and gas assets in the foreseeable future. Disclosure on going concern is included in note 2 to the financial statements. See page 11.

Post Balance Sheet Events

Post balance sheet events are disclosed on note 18 to the financial statements.

Directors

The Directors who served during the year were:

M Seghiri (Appointed 24 April 2017)
G Dempster (Appointed 17 April 2020)
B Mitchener (Appointed 16 April 2018 and resigned 31 March 2020)
JJ Traynor (Appointed 16 April 2018 and resigned 9 January 2020)
F Lacuha (Appointed 6 January 2020 and resigned 2 March 2020)

Statement of Directors' Responsibilities

The Directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law, the Directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union.

Under Company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable Accounting Standards have been followed, 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 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.

Provision of information to auditors

Each of the persons who are Directors at the time when this Directors' report is approved has confirmed that:

- so far as that Director is aware, there is no relevant audit information of which the Company's Auditor is unaware; and
- that the Director has taken all the steps that ought to have been taken as a Director in order to be aware of any information needed by the company's Auditor in connection with preparing his report and to establish that the Company's Auditor is aware of that information.

The Directors have prepared this report in accordance with the special provisions relating to small companies within Part 15 of the Companies Act 2006.

This report was approved by the board and signed on its behalf by:

M Seghiri

Director

Date: 22/06/2021

Opinion

We have audited the financial statements of Sound Energy Meridja Limited for the year ended 31 December 2020 which comprise Statement of Comprehensive Income, the Balance Sheet, the Statement of Changes in Equity, the Cash Flow Statement, and 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 International Financial Reporting Standards (IFRSs) as adopted by the European Union.

In our opinion, the financial statements:

- give a true and fair view of the state of the company's affairs as at ended 31 December 2020 and of its loss for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union;
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

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

Material uncertainty related to going concern

We draw attention to Note 2 in the financial statements. The Company is reliant on funding from its parent Company, Sound Energy plc, to enable it to meet its obligations. The Directors have received assurances from the parent Company that it will continue to support the Company, including not recalling any intercompany balances due where such a recall might cause the company not to continue as a going concern, to enable it to meet its liabilities as they fall due for at least 12 months from the date of approval of the financial statements. The parent Company's consolidated financial statements for the year ended 31 December 2020 contain a material uncertainty on the Group and parent Company's ability to continue as a going concern.

These conditions, along with other matters set forth in Note 2, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as going concern. Our conclusion is not modified in respect of this matter.

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. Our evaluation of the director's assessment of the group and company's ability to continue to adopt the going concern basis of accounting included:

- Assessing the cash flow requirements of the Company over the duration of the assessment period based on budgets and forecasts.
- Understanding what forecast expenditure is committed and what could be considered discretionary.
- Considering potential downside scenarios and the resultant impact on available funds.

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

Opinion

We have audited the financial statements of Sound Energy Meridja Limited for the year ended 31 December 2020 which comprise Statement of Comprehensive Income, the Balance Sheet, the Statement of Changes in Equity, the Cash Flow Statement, and 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 International Financial Reporting Standards (IFRSs) as adopted by the European Union.

In our opinion, the financial statements:

- give a true and fair view of the state of the company's affairs as at ended 31 December 2020 and of its loss for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union
- have been prepared in accordance with the requirements of the Companies Act 2006

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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 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. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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- Considering potential downside scenarios and the resultant impact on available funds

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 contained within the annual report. 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 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.

Opinion on other matter prescribed by the Companies Act 2006

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

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

Matters on which we are required to report by exception

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 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 by the company, 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 directors' responsibilities statement set out on page 3, 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.

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The directors are responsible for the other information contained within the annual report. 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.

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We have nothing to report in this regard.

Opinion on other matter prescribed by the Companies Act 2006

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

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

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- 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
- the financial statements are not in agreement with the accounting records and returns; or
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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.

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 obtained an understanding of the legal and regulatory frameworks that are applicable to the Company and the procedures in place for ensuring compliance. The most significant identified were the Companies Act 2006 and UK and Moroccan taxation legislation. Our work included, reviewing board and relevant committee minutes and inspection of correspondence and HSE reports.
- As part of our audit planning process we assessed the different areas of the financial statements, including disclosures, for the risk of material misstatement. This included considering the risk of fraud where direct enquiries were made of management and those charged with governance concerning both whether they had any knowledge of actual or suspected fraud and their assessment of the susceptibility of fraud. We considered the risk was greater in areas involve significant management estimate or judgement. Based on this assessment we designed audit procedures to focus on the key areas of estimate or judgement, including impairment, this included specific testing of journal transactions, both at the year end and throughout the year.
- We used analytics to identify any unusual transactions or unexpected relationships, including considering the risk of undisclosed related party transactions.

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. We are not responsible for preventing non-compliance and cannot be expected to detect non-compliance with all laws and regulations.

These inherent limitations are particularly significant in the case of misstatement resulting from fraud as this may involve sophisticated schemes designed to avoid detection, including deliberate failure to record transactions, collusion or the provision of intentional misrepresentations.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: 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.

M Stallabrass

Matthew Stallabrass
Senior Statutory Auditor
For and on behalf of
Crowe U.K. LLP
Statutory Auditor
London

Date: 25 June 2021

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.

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M Stallabrass

Matthew Stallabrass
Senior Statutory Auditor
For and on behalf of
Crowe U.K. LLP
Statutory Auditor
London

Date 25 June 2021

Statement of Comprehensive Income
for the year ended 31 December 2020

	Notes	**2020 £'000s**	2019 £'000s
Impairment of development and production assets	8	**(9,787)**	–
Gross loss		**(9,787)**	–
Administrative expenses		**(56)**	(1,516)
Operating loss for the year		**(9,843)**	(1,516)
Foreign exchange loss		–	–
Loss for the year before taxation	3	**(9,843)**	(1,516)
Taxation	6	–	–
Loss for the year after taxation		**(9,843)**	(1,516)
Other comprehensive income (that may be reclassified to profit or loss)			
Foreign currency translation gain		**642**	52
Total comprehensive loss for the year		**(9,201)**	(1,464)
Loss for the year attributable to:			
Owners of the company		**(9,201)**	(1,464)
Non-controlling interests		–	–

Balance Sheet
as at 31 December 2020

	Notes	2020 £'000s	2019 £'000s
Non-current assets			
Property, plant and equipment	8	**111,550**	125,125
Intangible assets	7	**278**	195
		111,828	125,320
Current assets			
Other receivables	9	**14,283**	14,749
Cash and short-term deposits	10	**2**	2
		14,285	14,751
Total assets		**126,113**	140,071
Current liabilities			
Trade and other payables	11	**136,926**	141,683
Total liabilities		**136,926**	141,683
Net liabilities		**(10,813)**	(1,612)
Capital and reserves			
Share capital	12	**–**	–
Foreign currency reserve		**691**	49
Accumulated deficit		**(11,504)**	(1,661)
Total equity		**(10,813)**	(1,612)

The financial statements were approved by the Board and authorised for issue and were signed on its behalf by:

M Seghiri
Director
Date: 22/06/2021

The accounting policies and notes on pages 11 to 20 form part of these financial statements.

Statement of Changes in Equity
for the year ended 31 December 2020

	Notes	Share capital £'000s	Accumulated deficit £'000s	Foreign currency reserves £'000s	Total equity £'000s
At 1 January 2020		**–**	**(1,661)**	**49**	**(1,612)**
Total loss for the year		–	(9,843)	–	(9,843)
Other comprehensive income		–	–	642	642
Total comprehensive loss		–	(9,843)	642	(9,201)
At 31 December 2020		**–**	**(11,504)**	**691**	**(10,813)**

	Notes	Share capital £'000s	Accumulated deficit £'000s	Foreign currency reserves £'000s	Total equity £'000s
At 1 January 2019		**–**	**(145)**	**(3)**	**(148)**
Total loss for the year		–	(1,516)	–	(1,516)
Other comprehensive income		–	–	52	52
Total comprehensive loss		–	(1,516)	52	(1,464)
At 31 December 2019		**–**	**(1,661)**	**49**	**(1,612)**

Statement of Changes in Equity

for the year ended 31 December 2020

	Notes	Share capital £'000s	Accumulated deficit £'000s	Foreign currency reserves £'000s	Total equity £'000s
At 1 January 2020		–	(1,661)	49	(1,612)
Total loss for the year		–	(9,843)	–	(9,843)
Other comprehensive income		–	–	642	642
Total comprehensive loss		–	(9,843)	642	(9,201)
At 31 December 2020		–	(11,504)	691	(10,813)

	Notes	Share capital £'000s	Accumulated deficit £'000s	Foreign currency reserves £'000s	Total equity £'000s
At 1 January 2019		–	(145)	(3)	(148)
Total loss for the year		–	(1,516)	–	(1,516)
Other comprehensive income		–	–	52	52
Total comprehensive loss		–	(1,516)	52	(1,464)
At 31 December 2019		–	(1,661)	49	(1,612)

Cash Flow Statement
for the year ended 31 December 2020

	Notes	2020 £'000s	2019 £'000s
Cash flow from operating activities			
Cash flow from operations		–	(1)
Net cash flow from operating activities		–	(1)
Cash flow from investing activities			
Receipt from/(advances to) group companies		**69**	(849)
Capital expenditure		**(116)**	(183)
Exploration expenditure		**(6)**	(240)
Net cash flow from investing activities		**(53)**	(1,272)
Cash flow from financing activities			
Funding from group companies		**63**	1,228
Net cash flow from financing activities		**63**	1,228
Net increase/(decrease) in cash and cash equivalents		**10**	(45)
Net foreign exchange difference		**(10)**	44
Cash and cash equivalents at the beginning of the year		**2**	3
Cash and cash equivalents at the end of the year	10	**2**	2

There were no non-cash transactions during the year ended 31 December 2020 and 2019.

NOTES TO THE CASH FLOW

	Notes	2020 £'000s	2019 £'000s
Cash flow from operations reconciliation			
Loss for the year before tax		**(9,843)**	(1,516)
Impairment of development and production assets		**9,787**	–
Expected credit loss allowance on advances to group companies		**19**	1,464
Depreciation		**37**	51
Cash flow from operations		–	(1)

Notes to the Financial Statements

1 General information

The Company is a private limited company, incorporated in England and Wales on 10 May 2016 with the registration number 10171798 and its registered office is 1st Floor, 4 Pembroke Road, Sevenoaks, Kent, England, TN13 1XR. The Company's principal activities are exploration, appraisal and development of oil and gas assets to first production and the operation of producing assets.

2 Accounting policies

(a) Basis of preparation

The financial statements of the Company have been prepared in accordance with:

1. International Financial Reporting Standards (IFRS) as adopted by the European Union, IFRIC Interpretations; and
2. those parts of the Companies Act 2006 applicable to companies reporting under IFRS.

The financial statements have been prepared under the historical cost convention, except to the extent that the following policies require fair value adjustments.

The company's financial statements are presented in sterling (£) and all values are rounded to the nearest thousand (£'000) except when otherwise indicated.

The principal accounting policies set out below have been consistently applied for the reporting period presented in these financial statements, unless otherwise stated. All amounts classified as current are expected to be settled/recovered in less than 12 months unless otherwise stated in the notes to these financial statements.

The company's financial statements for the year ended 31 December 2020 were authorised for issue by the Board of Directors on 22 June 2021.

Going concern

The Company's financial statements have been prepared on a going concern basis, which contemplates the realisation of assets and settlement of liabilities and commitments in the normal course of operations. The Company is reliant on continued funding from its parent Company, Sound Energy plc, to enable it to meet its obligations and the Directors have received assurances from the parent Company that this support will continue. The support includes a commitment not to require repayment of any intercompany balances where such a recall might cause the company not to be able to meet its debts and liabilities as they fall due for at least 12 months from the date of approval of the financial statements. The Directors have noted though that the parent Company's consolidated financial statements for the year ended 31 December 2020 stated that there was a material uncertainty as to the parent Company's ability to continue as a going concern. This indicates, therefore, an uncertainty as to whether the parent Company will be able to provide the support required by the Company and, as a result, the existence of a material uncertainty which may cast significant doubt about the Company's ability to continue as a going concern.

These financial statements do not include adjustments that would be required if the Company was unable to continue as a going concern. The Directors have formed a judgement based on the parent Company's proven success in raising capital and based on feedback from advisors, the Directors have a reasonable expectation that the parent Company will be able to secure the funding required, and that the going concern basis should be adopted in preparing the financial statements. Should the Company be unable to continue trading, adjustments might be required to reduce the value of the assets to their recoverable amounts, to provide for any further liabilities which might arise, and to reclassify non-current assets as current assets.

The Covid 19 pandemic has not had a material impact on the company's operations but could impact market conditions for longer that the parent Company's Directors currently expect and therefore delay the parent Company's ability to raise additional funding.

Notes to the Financial Statements

1 General information

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The Covid 19 pandemic has not had a material impact on the company's operations but could impact market conditions for longer that the parent Company's Directors currently expect and therefore delay the parent Company's ability to raise additional funding.

2 Accounting policies (continued)

Use of estimates and key sources of estimation uncertainty

The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities as well as the disclosure of contingent assets and liabilities at the balance sheet date and the reported amounts of revenues and expenses during the reporting period. Actual outcomes could differ from those estimates.

The key sources of estimation uncertainty that have a significant risk of causing material adjustment to the carrying amounts of assets and liabilities within the next financial year are the impairment of intangible exploration and evaluation (E&E).

When considering whether E&E assets are impaired the Company first considers IFRS 6 in note 7. The making of this assessment involves judgement concerning the Company's future plans and current technical and legal assessments. In considering whether development and production assets are impaired the Group considers significant declines in the market capitalisation of the Company and whether this indicates existence of an impairment.

When value in use calculations are undertaken, management estimates the expected future cash flows from the asset and chooses a suitable discount rate in order to calculate the present value of those cash flows. In undertaking these value in use calculations, management is required to make use of estimates and assumptions similar to those described in the treatment of E&E assets above. Further details are given in note 7.

At 31 December 2020, the patent Company's market capitalisation was £19.0 million, which was below the parent Company's net asset value of £144.9 million. Management considers this to be a possible indication of impairment of the Group and Company's assets. A significant portion of the Group's net assets is the carrying value of the development and producing assets and disclosures relating to management's assessment of impairment are included in note 8.

Impairment exists when the carrying value of an asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The fair value less costs of disposal calculation is based on available data from binding sales transactions, conducted at arm's length, for similar assets or observable market prices less incremental costs of disposing of the asset. The value in use calculation is based on a discounted cash flow model ("DCF model"). The cash flows are derived from latest budgets, expenditure and price data in agreed heads of terms and latest management plans on project phasing. The recoverable amount is sensitive to the discount rate as well as the Brent price assumption that forms part of the indexation for the gas price used in the DCF model. The carrying amount of the development and production assets was reduced by a £9.2 million impairment loss during the year. The key assumptions used to determine the recoverable amount of the development and production assets are disclosed in note 8.

Other sources of estimate concern IFRS 9 on advance to group companies (note 9) but are not considered likely subject to material change in the coming 12 months.

(b) Foreign currency translation

The functional currency of the Company is US dollar. Sterling is the presentation currency of the Company.

For the purposes of presenting the financial statements, the assets and liabilities of the Company are translated into sterling at exchange rates ruling at the balance sheet date. Income and expenses are translated at weighted average exchange rates for the year, unless this is not a reasonable approximation of the rates on the transaction dates. The resulting exchange differences are recognised in other comprehensive income and held in a separate component of equity. On disposal, the deferred cumulative exchange difference is recognised in the income statement.

Transactions in foreign currencies are initially recorded in the functional currency by applying the spot exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date. All differences are taken to the income statement.

2 Accounting policies (continued)

Use of estimates and key sources of estimation uncertainty

The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities as well as the disclosure of contingent assets and liabilities at the balance sheet date and the reported amounts of revenues and expenses during the reporting period. Actual outcomes could differ from those estimates

The key sources of estimation uncertainty that have a significant risk of causing material adjustment to the carrying amounts of assets and liabilities within the next financial year are the impairment of intangible exploration and evaluation (E&E)

When considering whether E&E assets are impaired the Company first considers IFRS 6 in note 7. The making of this assessment involves judgement concerning the Company's future plans and current technical and legal assessments. In considering whether development and production assets are impaired the Group considers significant declines in the market capitalisation of the Company and whether this indicates existence of an impairment.

When value in use calculations are undertaken, management estimates the expected future cash flows from the asset and chooses a suitable discount rate in order to calculate the present value of those cash flows. In undertaking these value in use calculations, management is required to make use of estimates and assumptions similar to those described in the treatment of E&E assets above. Further details are given in note 7

At 31 December 2020, the parent Company's market capitalisation was £19.0 million, which was below the parent Company's net asset value of £144.9 million. Management considers this to be a possible indication of impairment of the Group and Company's assets. A significant portion of the Group's net assets is the carrying value of the development and producing assets and disclosures relating to management's assessment of impairment are included in note 8.

Impairment exists when the carrying value of an asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The fair value less costs of disposal calculation is based on available data from binding sales transactions conducted at arm's length, for similar assets or observable market prices less incremental costs of disposing of the asset. The value in use calculation is based on a discounted cash flow model ("DCF model"). The cash flows are derived from latest budgets, expenditure and price data in agreed heads of terms and latest management plans on project phasing. The recoverable amount is sensitive to the discount rate as well as the Brent price assumption that forms part of the indexation for the gas price used in the DCF model. The carrying amount of the development and production assets was reduced by a £9.2 million impairment loss during the year. The key assumptions used to determine the recoverable amount of the development and production assets are disclosed in note 8

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The functional currency of the Company is US dollar. Sterling is the presentation currency of the Company.

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2 Accounting policies (continued)

(c) Oil and gas assets

The Company's capitalised oil and gas costs principally relate to properties that are in the exploration and evaluation stage.

As allowed under IFRS 6 the Company has continued to apply its Ultimate parent's existing accounting policy to exploration and evaluation activity, subject to the specific requirements of the standard.

The Company will continue to monitor the application of these policies in the light of expected future guidance on accounting for oil and gas activities.

The Company applies the successful efforts method of accounting for E&E costs.

Exploration and evaluation assets

Under the successful efforts method of accounting, all licence acquisition, exploration and appraisal costs are initially capitalised in well, field or specific exploration cost centres as appropriate, pending determination.

Expenditure incurred during the various exploration and appraisal phases is then written off unless commercial reserves have been established or the determination process has not been completed.

Exploration and evaluation costs

Costs are initially capitalised as E&E assets. Payments to acquire the legal right to explore, costs of technical services and studies, seismic acquisition, exploratory drilling and testing are capitalised as E&E assets.

Development and production assets

Development and production assets are accumulated generally on a field-by-field basis and represent the cost of developing the commercial reserves discovered and bringing them into production, together with the E&E expenditures incurred in finding commercial reserves transferred from intangible E&E assets as outlined in the accounting policy above. The cost of development and production assets also includes the cost of acquisitions and purchases of such assets, directly attributable overheads, finance costs capitalised, and the cost of recognising provisions for future restoration and decommissioning.

Impairment of development and production assets

An impairment test is performed whenever events and circumstances arising during the development or production phase indicate that the carrying value of a development or production asset may exceed its recoverable amount. The carrying value is compared with the expected recoverable amount of the asset, generally by reference to the present value of the future net cash flows expected to be derived from production of commercial reserves. The cash-generating unit applied for impairment test purposes is generally the field, except that a number of field interests may be grouped as a cash-generating unit where the cash flows of each field are interdependent. Impairment loss is first allocated to the cost of acquisitions of the development and production assets.

Treatment of exploration and evaluation expenditure at the end of appraisal activities

Intangible E&E assets relating to each exploration licence/prospect are carried forward, until the existence (or otherwise) of commercial reserves has been determined subject to certain limitations including review for indications of impairment. If, however, commercial reserves have been discovered and development has been approved, the carrying value, after any impairment loss, of the relevant E&E assets is then reclassified as development and production assets. If, however, commercial reserves have not been found, the capitalised costs are charged to expense after conclusion of appraisal activities.

Acquisitions, asset purchases and disposals

Acquisitions of oil and gas properties are accounted for under the purchase method where the transaction meets the definition of a business combination or joint venture.

Transactions involving the purchase of an individual field interest, or a group of field interests, that do not qualify as a business combination are treated as asset purchases, irrespective of whether the specific transactions involve the transfer of the field interests directly, or the transfer of an incorporated entity. Accordingly, no goodwill arises, and the consideration is allocated to the assets and liabilities purchased on an appropriate basis.

2 Accounting policies (continued)

(c) Oil and gas assets

The Company's capitalised oil and gas costs principally relate to properties that are in the exploration and evaluation stage.

As allowed under IFRS 6 the Company has continued to apply its Ultimate parent's existing accounting policy to exploration and evaluation activity, subject to the specific requirements of the standard.

The Company will continue to monitor the application of these policies in the light of expected future guidance on accounting for oil and gas activities.

The Company applies the successful efforts method of accounting for E&E costs

Exploration and evaluation assets

Under the successful efforts method of accounting, all licence acquisition, exploration and appraisal costs are initially capitalised in well, field or specific exploration cost centres as appropriate, pending determination.

Expenditure incurred during the various exploration and appraisal phases is then written off unless commercial reserves have been established or the determination process has not been completed.

Exploration and evaluation costs

Costs are initially capitalised as E&E assets. Payments to acquire the legal right to explore, costs of technical services and studies, seismic acquisition, exploratory drilling and testing are capitalised as E&E assets.

Development and production assets

Development and production assets are accumulated generally on a field-by-field basis and represent the cost of developing the commercial reserves discovered and bringing them into production, together with the E&E expenditures incurred in finding commercial reserves transferred from intangible E&E assets as outlined in the accounting policy above. The cost of development and production assets also includes the cost of acquisitions and purchases of such assets, directly attributable overheads, finance costs capitalised, and the cost of recognising provisions for future restoration and decommissioning.

Impairment of development and production assets

An impairment test is performed whenever events and circumstances arising during the development or production phase indicate that the carrying value of a development or production asset may exceed its recoverable amount. The carrying value is compared with the expected recoverable amount of the asset, generally by reference to the present value of the future net cash flows expected to be derived from production of commercial reserves. The cash-generating unit applied for impairment test purposes is generally the field, except that a number of field interests may be grouped as a cash-generating unit where the cash flows of each field are interdependent. Impairment loss is first allocated to the cost of acquisitions of the development and production assets

Treatment of exploration and evaluation expenditure at the end of appraisal activities

Intangible E&E assets relating to each exploration licence/prospect are carried forward, until the existence (or otherwise) of commercial reserves has been determined subject to certain limitations including review for indications of impairment. If however commercial reserves have been discovered and development has been approved, the carrying value, after any impairment loss, of the relevant E&E assets is then reclassified as development and production assets. If, however commercial reserves have not been found, the capitalised costs are charged to expense after conclusion of appraisal activities.

Acquisitions, asset purchases and disposals

Acquisitions of oil and gas properties are accounted for under the purchase method where the transaction meets the definition of a business combination or joint venture

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2 Accounting policies (continued)

(d) Expenses recognition
Expenses are recognised on the accruals basis unless otherwise stated.

(e) Property, plant and equipment
Fixtures, fittings and equipment are recorded at cost as tangible assets.

The straight-line method of depreciation is used to depreciate the cost of these assets over their estimated useful lives, which is estimated to be four years.

(f) Borrowing costs
Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

(g) Income tax
Current tax
The current tax expense is based on the taxable results for the year, using tax rates enacted or substantively enacted at the Balance Sheet date, including any adjustments in respect of prior years.

Amounts are charged or credited to the Income Statement or equity as appropriate.

Deferred tax
Deferred tax is provided using the Balance Sheet liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred tax assets are recognised to the extent that it is probable that future taxable results will be available against which the temporary differences can be utilised. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities.

Temporary differences arising from investments in subsidiaries give rise to deferred tax in the Company Balance Sheet only to the extent that it is probable that the temporary difference will reverse in the foreseeable future or the Company does not control the timing of the reversal of that difference.

Deferred tax is provided on unremitted earnings of subsidiaries to the extent that the temporary difference created is expected to reverse in the foreseeable future.

Deferred tax is recognised in the Income Statement except when it relates to items recognised directly in the Statement of Changes in Equity in which case it is credited or charged directly to Retained Earnings through the Statement of Changes in Equity.

(h) Cash and cash equivalents
Cash and cash equivalents include cash in hand and deposits held at call with banks. Cash and cash equivalents also includes restricted cash that has been placed as guarantees for work commitments on licences.

(i) Financial instruments
Financial assets and financial liabilities are recognised on the Company's Balance Sheet when the Company becomes a party to the contractual provisions of the instrument. Trade and other receivables are initially measured at fair value and are subsequently reassessed at the end of each accounting period. Cash and cash equivalents comprise cash on hand and demand deposits, restricted cash and other short term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. Derivative financial instruments are measured at fair value. Financial liabilities and equity instruments issued by the Company are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability

and an equity instrument. Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs and are subsequently measured at amortised cost using the effective interest method. Warrants issued are measured at their fair value on the date of issuance. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all its liabilities. The accounting policies adopted for specific financial liabilities and equity instruments

2 Accounting policies (continued)

(d) Expenses recognition
Expenses are recognised on the accruals basis unless otherwise stated

(e) Property, plant and equipment
Fixtures, fittings and equipment are recorded at cost as tangible assets

The straight-line method of depreciation is used to depreciate the cost of these assets over their estimated useful lives, which is estimated to be four years

(f) Borrowing costs
Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

(g) Income tax
Current tax
The current tax expense is based on the taxable results for the year, using tax rates enacted or substantively enacted at the Balance Sheet date, including any adjustments in respect of prior years.

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Temporary differences arising from investments in subsidiaries give rise to deferred tax in the Company Balance Sheet only to the extent that it is probable that the temporary difference will reverse in the foreseeable future or the Company does not control the timing of the reversal of that difference.

Deferred tax is provided on unremitted earnings of subsidiaries to the extent that the temporary difference created is expected to reverse in the foreseeable future.

Deferred tax is recognised in the Income Statement except when it relates to items recognised directly in the Statement of Changes in Equity in which case it is credited or charged directly to Retained Earnings through the Statement of Changes in Equity.

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Cash and cash equivalents include cash in hand and deposits held at call with banks. Cash and cash equivalents also includes restricted cash that has been placed as guarantees for work commitments on licences

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Financial assets and financial liabilities are recognised on the Company's Balance Sheet when the Company becomes a party to the contractual provisions of the instrument. Trade and other receivables are initially measured at fair value and are subsequently reassessed at the end of each accounting period. Cash and cash equivalents comprise cash on hand and demand deposits, restricted cash and other short term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. Derivative financial instruments are measured at fair value. Financial liabilities and equity instruments issued by the Company are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability

and an equity instrument. Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs and are subsequently measured at amortised cost using the effective interest method. Warrants issued are measured at their fair value on the date of issuance. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all its liabilities. The accounting policies adopted for specific financial liabilities and equity instruments

2 Accounting policies (continued)

are set out below. Trade payables are initially measured at fair value and are subsequently measured at amortised cost, using the effective interest rate method. Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs. Shares issued are recorded at their fair value on issue and are not subsequently remeasured.

(j) Standards, interpretations and amendments to published standards

Amendments to published Standards
A number of amendments to standards and interpretations have been issued but no material impact on the Company.

3 Loss for the year before taxation

	2020 £'000s	2019 £'000s
Loss for the year is stated after charging:		
Expected credit loss allowance on advances to group companies	**19**	1,464
Depreciation	**37**	51

4 Auditor's remuneration

Auditors remuneration are borne by the ultimate parent company.

5 Employees

The Company had no employees during the year. The directors' remuneration was borne by other group companies.

6 Taxation

The Company had no tax liability in 2020 and 2019 due to losses incurred.

7 Intangibles

	Software £'000s	Exploration & Evaluation Assets £'000s	2020 £'000s
Cost			
At 1 January 2020	52	195	**247**
Additions	–	6	**6**
Exchange adjustments	(1)	77	**76**
At 31 December 2020	51	278	**329**
Amortisation			
At 1 January 2020	52	–	**52**
Charge for the year	–	–	**–**
Exchange adjustments	(1)	–	**(1)**
At 31 December 2020	51	–	**51**
Net book amount at 31 December 2020	–	278	**278**

2 Accounting policies (continued)

are set out below. Trade payables are initially measured at fair value and are subsequently measured at amortised cost, using the effective interest rate method. Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs. Shares issued are recorded at their fair value on issue and are not subsequently remeasured.

(j) Standards, interpretations and amendments to published standards

Amendments to published Standards
A number of amendments to standards and interpretations have been issued but no material impact on the Company.

3 Loss for the year before taxation

	2020 £'000s	2019 £'000s
Loss for the year is stated after charging:		
Expected credit loss allowance on advances to group companies	10	1,434
Depreciation	57	51

4 Auditor's remuneration

Auditors remuneration are borne by the ultimate parent company

5 Employees

The Company had no employees during the year. The directors remuneration was borne by other group companies.

6 Taxation

The Company had no tax liability in 2020 and 2019 due to losses incurred

7 Intangibles

	Software £'000s	Exploration & Evaluation Assets £'000s	2020 £'000s
Cost			
At 1 January 2020	52	195	247
Additions	–	6	6
Exchange adjustments	(1)	77	76
At 31 December 2020	51	278	329
Amortisation			
At 1 January 2020	52	–	52
Charge for the year	–	–	-
Exchange adjustments	(1)	-	(1)
At 31 December 2020	51	–	51
Net book amount at 31 December 2020	–	278	278

7 Intangibles (continued)

	Software £'000s	Exploration & Evaluation Assets £'000s	2019 £'000s
Cost			
At 1 January 2019	50	15,810	15,860
Additions	2	240	242
Transfer to other group companies	–	(14,387)	(14,387)
Exchange adjustments	–	(1,468)	(1,468)
At 31 December 2019	52	195	247
Amortisation			
At 1 January 2019	40	–	40
Charge for the year	14	–	14
Exchange adjustments	(2)	–	(2)
At 31 December 2019	52	–	52
Net book amount at 31 December 2019	–	195	195

Exploration and Evaluation Assets

The Directors assess for impairment when facts and circumstances suggest that the carrying amount of an E&E asset may exceed its recoverable amount. In making this assessment the Directors have regard to the facts and circumstances noted in IFRS 6 paragraph 20. In performing their assessment of each of these factors at 31 December 2020 the Directors have;

a) reviewed the time period that the Company has the right to explore the area and noted no instances of expiration, or licences that are expected to expire in the near future;

b) determined that further exploration or evaluation expenditure is either budgeted or planned for all licences and;

c) not decided to discontinue exploration activity due to there being a lack of quantifiable mineral resource;

d) not identified any instances where sufficient data exists to indicate that there are licences where the E&E spend is unlikely to be recovered from successful development or sale.

On the basis of the above assessment, the Directors are not aware of any facts or circumstances that would suggest the carrying amount of the E&E asset may exceed its recoverable amount.

8 Property, plant and equipment

	Development and production assets £'000s	Fixtures, fittings & office equipment £'000s	**2020 £'000s**
Cost			
At 1 January 2020	125,080	112	**125,192**
Additions	116	–	**116**
Exchange adjustments	(4,450)	(4)	**(4,454)**
At 31 December 2020	120,746	108	**120,854**
Depreciation			
At 1 January 2020	–	67	**67**
Charge for the year	9,787	37	**9,824**
Exchange adjustments	(583)	(4)	**(587)**
At 31 December 2020	9,204	100	**9,304**
Net book amount at 31 December 2020	111,542	8	**111,550**

7 Intangibles (continued)

	Software £'000s	Exploration & Evaluation Assets £'000s	2019 £'000s
Cost			
At 1 January 2019	50	15,810	15,860
Additions	2	240	242
Transfer to other group companies	–	(14,387)	(14,387)
Exchange adjustments	–	(1,468)	(1,468)
At 31 December 2019	52	195	247
Amortisation			
At 1 January 2019	40	–	40
Charge for the year	14	–	14
Exchange adjustments	(2)	–	(2)
At 31 December 2019	52	–	52
Net book amount at 31 December 2019	–	195	195

Exploration and Evaluation Assets

The Directors assess for impairment when facts and circumstances suggest that the carrying amount of an E&E asset may exceed its recoverable amount. In making this assessment the Directors have regard to the facts and circumstances noted in IFRS 6 paragraph 20. In performing their assessment of each of these factors at 31 December 2020 the Directors have:

a) reviewed the time period that the Company has the right to explore the area and noted no instances of expiration, or licences that are expected to expire in the near future;

b) determined that further exploration or evaluation expenditure is either budgeted or planned for all licences; and

c) not decided to discontinue exploration activity due to there being a lack of quantifiable mineral resource;

d) not identified any instances where sufficient data exists to indicate that there are licences where the E&E spend is unlikely to be recovered from successful development or sale.

On the basis of the above assessment, the Directors are not aware of any facts or circumstances that would suggest the carrying amount of the E&E asset may exceed its recoverable amount.

8 Property, plant and equipment

	Development and production assets £'000s	Fixtures, fittings & office equipment £'000s	2020 £'000s
Cost			
At 1 January 2020	125,080	112	125,192
Additions	116	–	116
Exchange adjustments	(4,450)	(4)	(4,454)
At 31 December 2020	120,746	108	120,854
Depreciation			
At 1 January 2020	–	67	67
Charge for the year	9,787	37	9,824
Exchange adjustments	(583)	(4)	(587)
At 31 December 2020	9,204	100	9,304
Net book amount at 31 December 2020	111,542	8	111,550

8 Property, plant and equipment (continued)

	Development and production assets £'000s	Fixtures, fittings & office equipment £'000s	2019 £'000S
Cost			
At 1 January 2019	128,860	116	128,976
Additions	181	–	181
Exchange adjustments	(3,961)	(4)	(3,965)
At 31 December 2019	125,080	112	125,192
Depreciation			
At 1 January 2019	–	33	33
Charge for the year	–	37	37
Exchange adjustments	–	(3)	(3)
At 31 December 2019	–	67	67
Net book amount at 31 December 2018	125,080	45	125,125

The Company's market capitalisation was £19.0 million as at 31 December 2020, which is below the Group's net assets of £144.9 million. An impairment indicator therefore exists. The Company is pursuing a micro-LNG development (phase 1) followed by full field development (phase 2) of its TE-5 Horst concession at the Group's Tendrara licence and an impairment test was undertaken on the carrying amount of the TE-5 Horst Concession. The Company used a DCF model ("Model") to calculate the value in use for the Company's share of the TE-5 Horst concession. The model has an NPV of $181.9 million (£133.2 million), which when compared to the carrying amount of the development and production assets of £142.4 million (before impairment) led to recognition of an impairment loss of £9.2 million (£9.8 million less translation exchange adjustment of £0.6 million).

The Model covers the period 2021 to 2045. The input to the Model included a discount rate of 10% and a gas price of $8.25/mmbtu for the first 0.3 bcm gas produced per annum and the price for additional volumes range between $7 to $9 per mmbtu with an indexed formula using a combination of the European Title Transfer Facility and United States Henry Hub benchmark indexes and Brent price range of $50/bbl in 2021 to $67/bbl in 2030, increasing at 2% per annum thereafter consistent with published sources. The base gas prices used are consistent with Head of Terms for the phase 1 development and memorandum of understanding on the gas sales agreement in negotiation with ONEE. The production volumes and production profile was based on the 2018 CPR for TE-5 Horst.

Well costs assumptions used were based on management's past experience, mLNG plant leasing costs were based on agreed Head of Terms with the potential contractor and pipeline related costs were based on Head of Terms entered into with a consortium of partners that had offered to provide a build, own, operate and transfer ("BOOT") solution for the phase 2 of the development. The Company's latest budgets covered the period to 2023 but the model extends to 2045, as that is the period required to produce the gas resources at TE-5 Horst concession and economic cut-off.

A change in the discount rate by 1% has a $21 million (£15.4 million) impact on the NPV and change in the Brent price by $1/bbl has a $0.5 million (£0.4 million) impact on the NPV.

9 Other receivables

	2020 £'000s	2019 £'000s
Advances to group companies	**15,718**	16,216
Credit loss allowance	**(1,435)**	(1,467)
	14,283	14,749

8 Property, plant and equipment (continued)

	Development and production assets £'000s	Fixtures, fittings & office equipment £'000s	2019 £'000s
Cost			
At 1 January 2019	128,860	116	128,976
Additions	181	–	181
Exchange adjustments	(3,961)	(4)	(3,965)
At 31 December 2019	125,080	112	125,192
Depreciation			
At 1 January 2019	–	33	33
Charge for the year	–	37	37
Exchange adjustments	–	(3)	(3)
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Net book amount at 31 December 2018	125,080	45	125,125

The Company's market capitalisation was £19.0 million as at 31 December 2020, which is below the Group's net assets of £144.9 million. An impairment indicator therefore exists. The Company is pursuing a micro-LNG development (phase 1) followed by full field development (phase 2) of its TE-5 Horst concession at the Group's Tendrara licence and an impairment test was undertaken on the carrying amount of the TE-5 Horst Concession. The Company used a DCF model ("Model") to calculate the value in use for the Company's share of the TE-5 Horst concession. The model has an NPV of $181.9 million (£133.2 million), which when compared to the carrying amount of the development and production assets of £142.4 million (before impairment) led to recognition of an impairment loss of £9.2 million (£9.8 million less translation exchange adjustment of £0.6 million).

The Model covers the period 2021 to 2045. The input to the Model included a discount rate of 10% and a gas price of $8.25/mmbtu for the first 0.3 bcm gas produced per annum and the price for additional volumes range between $7 to $9 per mmbtu with an indexed formula using a combination of the European Title Transfer Facility and United States Henry Hub benchmark indexes and Brent price range of $50/bbl in 2021 to $67/bbl in 2030, increasing at 2% per annum thereafter consistent with published sources. The base gas prices used are consistent with Head of Terms for the phase 1 development and memorandum of understanding on the gas sales agreement in negotiation with ONEE. The production volumes and production profile was based on the 2018 CPR for TE-5 Horst.

Well costs assumptions used were based on management's past experience, mLNG plant leasing costs were based on agreed Head of Terms with the potential contractor and pipeline related costs were based on Head of Terms entered into with a consortium of partners that had offered to provide a build, own, operate and transfer ("BOOT") solution for the phase 2 of the development. The Company's latest budgets covered the period to 2023 but the model extends to 2045, as that is the period required to produce the gas resources at TE-5 Horst concession and economic cut-off.

A change in the discount rate by 1% has a $21 million (£15.4 million) impact on the NPV and change in the Brent price by $1/bbl has a $0.6 million (£0.4 million) impact on the NPV.

9 Other receivables

	2020 £'000s	2019 £'000s
Advances to group companies	15,718	16,216
Credit loss allowance	(1,435)	(1,467)
	14,283	14,749

9 Other receivables (continued)

The movement of the credit loss allowance from the beginning to the end of the year is shown below.

	2020 £'000s	2019 £'000s
At 1 January	**1,467**	51
Increase/(decrease) during the year	**19**	1,464
Exchange adjustment	**(51)**	(48)
At 31 December	**1,435**	1,467

On adoption of IFRS 9, the Company calculated expected credit losses on intercompany loans based on lifetime expected credit loss. The expected credit loss is re-evaluated when the credit risk significantly changes.

The Company uses available external data on oil and gas industry default rates, where available, or speculative bond default rates. The cumulative default rate of 9% (2019: 9%) used was obtained from publicly available data published by leading credit rating agencies. £19k (2019: £1.5 million) charge was recognised in the income statement.

10 Cash and cash equivalents

	2020 £'000s	2019 £'000s
Cash at bank and in hand	**2**	2
Carrying amount 31 December	**2**	2
Being in:		
Moroccan dirham	**2**	2

11 Trade & other payables

	2020 £'000s	2019 £'000s
Amounts due to group companies	**136,926**	141,683

Currency analysis

	2020 £'000s	2019
US Dollar	**136,926**	141,683

12 Capital and reserves

	2020 and 2019 Number of shares	**£'000s**
Ordinary shares – 1 pound	1	–

13 Related party disclosures

Key management

As at 31 December 2020, the key management personnel were the directors of the Company. The directors' remuneration was borne by other group companies.

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9 Other receivables (continued)

The movement of the credit loss allowance from the beginning to the end of the year is shown below.

	2020 £'000s	2019 £'000s
At 1 January	1,467	5
Increase/(decrease) during the year	19	1,434
Exchange adjustment	(51)	(48)
At 31 December	1,435	1 467

On adoption of IFRS 9, the Company calculated expected credit losses on intercompany loans based on lifetime expected credit loss. The expected credit loss is re-evaluated when the credit risk significantly changes.

The Company uses available external data on oil and gas industry default rates, where available, or speculative bond default rates. The cumulative default rate of 9% (2019: 9%) used was obtained from publicly available data published by leading credit rating agencies. £19k (2019: £1.5 million) charge was recognised in the income statement.

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	2020 £'000s	2019 £'000s
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Carrying amount 31 December	2	2
Being in		
Moroccan dirham	2	2

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	2020 £'000s	2019 £'000s
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Currency analysis

	2020 £'000s	2019
US Dollar	136,926	141 683

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	2020 and 2019 Number of shares	£'000s
Ordinary shares – 1 pound	1	–

13 Related party disclosures

Key management

As at 31 December 2020, the key management personnel were the directors of the Company. The directors' remuneration was borne by other group companies.

14 Financial instruments risk management objectives and policies

A financial instrument is defined as any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. The Company's financial instruments comprise cash and short-term deposits, other receivables and trade and other payables. The main purpose of the financial instruments is to finance the Company's operations. The fair value of the financial instruments is their carrying value, with the carrying value amounts included in the Balance Sheet with further analysis in note 9 (other receivables), note 10 (cash and cash equivalents) and note 11 (trade and other payables).

The table below set out the Group's accounting classification of its financial assets and liabilities.

	2020	2019
	£'000s	£'000s
Financial assets		
Other receivables	14,283	14,749
Cash and short- term deposits	2	2
	14,285	14,751
Financial liabilities		
Trade and other payables	136,926	141,683
	136,926	141,683

The Company classifies the fair value of the financial instruments according to the following hierarchy, based on the amount of observable inputs used to value the instrument. The three levels of the fair value hierarchy are as follows:

•Level 1 - inputs to the valuation methodology are quoted prices for identical assets or liabilities in active markets.

•Level 2 - inputs to the valuation methodology are derived from quoted prices for identical assets or liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument. Level 2 valuations are based on inputs, including quoted forward prices for commodities, time value and volatility factors, which can be substantially observed or corroborated in the marketplace.

•Level 3 - inputs to the valuation methodology are not based on observable market data.

The main risks arising from the Company's financial instruments are interest rate risk and foreign currency risk. The Board of Directors reviews and agrees policies for managing each of these risks which are summarised below:

Interest rate risk
The Company's exposure to the risk of changes in market interest rates relates primarily to the Company's deposits. The Company's policy is to manage this exposure by investing in short term, low risk bank deposits.

Capital management
The Company is reliant on its ultimate parent to fund its operations and settle its liabilities as they fall due. The Company reviews its expenditure commitments on a regular basis and seeks funding from the Ultimate parent as required.

15 Foreign currency and other risks
The Company's functional currency is US dollar (USD). The Company also undertakes transactions in Moroccan dirham (MAD). The Company's balance sheet can be impacted by movements in these exchange rates against USD. Movement in exchange rates will result in book gains or losses which are unrealised and will be offset if the currencies involved move in the opposite direction.

The USD cost of the assets being acquired with the MAD rises or falls pro rata to the currency movements, so the purchasing power of the respective currency remains the same. Wherever possible the company holds the same currency as our liabilities, thereby providing a natural hedge.

14 Financial instruments risk management objectives and policies

A financial instrument is defined as any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. The Company's financial instruments comprise cash and short-term deposits, other receivables and trade and other payables. The main purpose of the financial instruments is to finance the Company's operations. The fair value of the financial instruments is their carrying value, with the carrying value amounts included in the Balance Sheet with further analysis in note 9 (other receivables), note 10 (cash and cash equivalents) and note 11 (trade and other payables).

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Capital management
The Company is reliant on its ultimate parent to fund its operations and settle its liabilities as they fall due. The Company reviews its expenditure commitments on a regular basis and seeks funding from the Ultimate parent as required.

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The Company's functional currency is US dollar (USD). The Company also undertakes transactions in Moroccan dirham (MAD). The Company's balance sheet can be impacted by movements in these exchange rates against USD. Movement in exchange rates will result in book gains or losses which are unrealised and will be offset if the currencies involved move in the opposite direction.

The USD cost of the assets being acquired with the MAD rises or falls pro rata to the currency movements, so the purchasing power of the respective currency remains the same. Wherever possible the company holds the same currency as our liabilities, thereby providing a natural hedge.

15 Foreign currency and other risks (continued)
The effect of foreign currency movement had no material impact on the profit and loss account as at 31 December 2020 and 2019.

Liquidity risk
The Company is reliant on its ultimate parent to fund its operations and settle its liabilities as they fall due. The Company has received assurances from its ultimate parent that funding will be provided to the Company to enable it to meet its obligations as they fall due.

16 Financial instruments
The Company's cash and cash equivalents are denominated in US dollars and Moroccan dirham and did not earn interest as at 31 December 2020 and 2019. Moroccan dirham cash balances have been converted at the exchange rate of MAD12.159: £1.00 (2019: MAD12.6460: £1.00).

17 Commitment and guarantees
At 31 December 2020, the Company had no material commitments or guarantees.

18 Post balance sheet events

None to report.

19 Parent undertaking and ultimate controlling party
The ultimate parent company is Sound Energy plc. Sound Energy plc is the largest and smallest group for which group accounts are drawn up. These can be obtained from 1st Floor, Pembroke Road, Sevenoaks, TN13 1XR. There is no ultimate controlling party.