



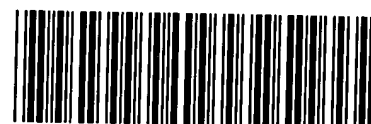
Rathlin Energy (UK) Limited  
Directors' Report and Financial Statements

Registered number 06478035

For the year ended

31 December 2018

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## **Contents**

Directors' report.....	2
Statement of directors' responsibilities in respect of the directors' report and the financial statements.....	6
Independent auditor's report to the members of Rathlin Energy (UK) Limited.....	7
Statement of comprehensive loss.....	10
Statement of financial position.....	11
Statement of changes in equity.....	12
Statement of cash flows.....	13
Notes.....	14

## **Directors' Report**

The Directors present their report with the financial statements for the year ended 31 December 2018.

In preparing the financial statements the Directors have taken advantage of the small companies' exemption provided by section 414B and 415A of the Companies Act 2006 from the requirement to prepare a strategic report and in preparing the directors' report on the grounds that the Company is entitled to prepare its accounts for the year in accordance with the small companies regime.

### **Principal Activity**

The Company's principal activity is the exploration, appraisal and development of oil and gas assets in the United Kingdom.

### **Review of Business**

Effective 30 November 2018, the Company completed a series of corporate transactions which allowed for continued exploration activity in the Humber Basin. A summary of these transactions is as follows:

The Company entered into a farm-in agreement, whereby two independent third parties earned a combined 33.33 percent interest in Petroleum Exploration and Development Licence 183 ("PEDL 183") subject to paying 50 percent of the drilling and testing costs of an appraisal well at West Newton. The expected costs for this well are £6.8 million of which Rathlin is obligated to fund £3.4 million.

Rathlin issued 6.2 million common shares to new shareholders on a private placement basis for gross proceeds of £5.0 million. As a result of this transaction Connaught Oil and Gas Ltd, the former ultimate parent company of Rathlin, retained a 35 percent ownership interest in the Company, which was previously a 100 percent owned subsidiary of Connaught Oil & Gas Ltd.

Prior to finalizing these business transactions, the Company was formally notified by the UK Oil and Gas Authority on 3 May 2018 that the licence term for PEDL 183 was extended to June 2023. The time periods to undertake the work commitments on the licence were also extended.

In late 2018, with the joint venture and financing processes completed and with the licence extension in place, the Company's focus returned to the exploration of the Humber basin. In December 2018, the Company commenced preparation operations at the West Newton appraisal well site. The appraisal well is a conventional well drilled to the base of the Permian strata and will allow the Company to assess the potential of the discovered hydrocarbon-bearing Kirkham Abbey reservoir and target the oil-bearing Cadeby pinnacle reef prospect penetrated in the first West Newton exploratory well. During 2018, we completed cellar construction activities. A drilling rig was mobilized to site in April 2019 and we reached total depth of 2061 meters on 9 June 2019. The Company is currently analyzing the results of the well and anticipates testing the well in the third quarter of 2019.

### **Proposed Dividend**

The Directors do not recommend the payment of a dividend (2017: £nil).

## Directors

The Directors who held office during the year were as follows:

John A. Hodgins  
 Howard Mayson (appointed 10 December 2018)  
 Paul McGarvey (appointed 10 December 2018)  
 David A. Montagu-Smith  
 Dermot W. Nesbitt (resigned 1 November 2018)  
 Robert C. Standley (resigned 26 November 2018)  
 Stephen Williams (appointed 7 December 2018)

The Directors' beneficial interests in the ordinary shares of the Company as at 31 December 2018 is as follows:

	Ordinary shares	
	2018	2017
John. A. Hodgins	400,000	-
Howard Mayson	80,000	-
Paul McGarvey	1,600,000	-
David A. Montagu-Smith	-	-
Dermot W. Nesbitt	-	-
Robert C. Standley	-	-
Stephen Williams	-	-
	2,080,000	-

There were no share purchase options or warrants outstanding as at 31 December 2018 or 2017.

Subsequent to the end of the reporting period, 989,000 share purchase options were issued to directors, employees and consultants. Of this amount 230,000 were issued to directors.

## Directors' Remuneration

The Directors' remuneration for the year ended 31 December 2018 and 2017:

	Salaries and Fees	
	2018	2017
	£	£
John. A. Hodgins	-	-
Howard Mayson	-	-
Paul McGarvey	-	-
David A. Montagu-Smith	3,600	5,440
Dermot W. Nesbitt	2,400	3,045
Robert C. Standley	2,400	3,520
Stephen Williams	-	-
	8,400	12,005

The Company paid an additional £42,760 (2017: £80,000) to a management consulting company in which David A. Montagu-Smith is an owner in relation to business development and other assistance provided to the Company.

#### **Directors' Insurance and indemnities**

The Company has maintained throughout the year directors' and officers' liability insurance for the benefit of the Company, the Directors and its officers.

#### **Going Concern**

These accounts have been prepared on a going concern basis which asserts that the Company has the ability to realize its assets and discharge its liabilities and commitment in the normal course of business for a period of no less than 12 months from the date of approval of the financial statements.

The Company is dependent on its existing cash resources and its ability to raise additional funding in order to develop its assets. Based on the cash balance at year end and the Company's commitments, the Directors are of the opinion that the Company has sufficient funds to cover its budgeted exploration programme and to meet its operational obligations as they fall due until the beginning of the fourth quarter of 2019. The Directors acknowledge that additional funds will be required to be raised to finance the Company's budgeted exploration and development programme and to meet its other operational obligations as they fall due beyond the beginning of the fourth quarter of 2019. These funds will need to be raised through capital raisings, partnership arrangements or other financing packages. At present there are no such arrangements in place. Whilst the Directors remain confident of being able to successfully raise the required financing, most likely by way of equity as has been achieved in the past, there can be no guarantee that this will occur. These circumstances indicate the existence of a material uncertainty which may cast significant doubt on the Company's ability to continue as a going concern. The financial statements do not include any adjustment that would result if the Company was unable to continue as a going concern which would principally relate to impairment of the Company's non-current assets.

#### **Financial Risks**

Rathlin's ability to continue as a going concern may include having to make substantial capital expenditures for the acquisition, exploration, development and production of oil and natural gas reserves in the future. The Company may have limited ability to expend the capital necessary to undertake or complete future drilling programs. There can be no assurance that debt or equity financing or cash generated by operations will be available or sufficient to meet these requirements or for other corporate purposes or, if debt or equity financing is available, that it will be on terms acceptable to the Company.

#### **Exploration, Development and Production Risks**

Oil and natural gas operations involve many risks which even a combination of experience, knowledge and careful evaluation may not be able to overcome. The long-term commercial success of Rathlin depends on its ability to find, appraise, develop and commercially produce oil and natural gas resources and reserves, which will depend not only on its ability to explore and develop any properties it may have from time to time, but also on its ability to select and acquire additional producing properties or prospects. There is no assurance that commercial quantities of oil and natural gas will be discovered or acquired by the Company.

#### **Other Business Risks**

The Company's results are sensitive to crude oil and natural gas prices which are dependent on a number of factors which impact world supply and demand.

On 23 June 2016, the UK electorate voted to discontinue its membership of the European Union. Until further clarity is known regarding terms in which the UK will exit, the Directors are not able to assess the impact on the Company or what the impact on the wider regulatory and legal consequences of the UK leaving the European Union would be on the Company.

#### **Subsequent Events**

Events subsequent to 31 December 2018 are set out in note 24 to the financial statements.

#### **Political Contributions**

The Company made no political donations nor incurred any political expenditures during the year (2017: £nil).

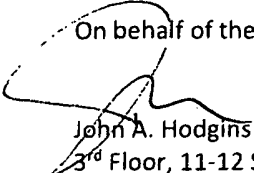
#### **Disclosure of Information to Auditors**

The Directors who held office at the date of approval of this Director's report confirm that so far as they are each aware, there is no relevant audit information of which the Company's auditor is unaware and each Director has taken all the steps that he ought to have taken as a Director to make himself aware of any relevant audit information and to establish that the Company's auditor is aware of that information. This confirmation is given and should be interpreted in accordance with provisions of Section 418 of the Companies Act 2006.

#### **Auditor**

The Director's appointed BDO LLP as auditors on 11 April 2019. Pursuant to Section 487 of the Companies Act 2006, the auditor will be deemed to be reappointed and BDO LLP will therefore continue in office.

On behalf of the board,



John A. Hodgins

3<sup>rd</sup> Floor, 11-12 St. James's Square, London SW1Y 4LB

Director

25 July 2019

## **Statement of Directors' Responsibilities**

The Directors are responsible for preparing the Directors' 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 they have elected to prepare the Company financial statements in accordance with International Financial Reporting Standards ("IFRS"s) as adopted by the European Union. Under company law the Directors must not approve 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 and 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;
- Prepare financial statements on the going concern basis unless they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

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 responsible for such internal controls as they determine are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

## **INDEPENDENT AUDITOR'S REPORT TO MEMBERS OF RATHLIN ENERGY (UK) LIMITED**

### **Opinion**

We have audited the financial statements of Rathlin Energy (UK) Limited ("the Company") for the year ended 31 December 2018 which comprise the Statement of comprehensive loss, the Statement of financial position, the Statement of cash flows, the Statement of changes in equity, and the notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and 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 31 December 2018 and of its loss for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- 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 2c to the financial statements, which indicates that the Company will require further funding to be able to meet its forecasted working capital requirements in order to continue as a going concern. As stated in note 2c, these events or conditions indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

### **Other information**

The Directors are responsible for the other information. The other information comprises the information included in the Directors report and financial statements, 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.



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 such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in 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 in this regard.

#### **Opinions on other matters prescribed by the Companies Act 2006**

In our opinion, based on the work undertaken in the course of the 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 Director's report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion;

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit; or
- the Directors were not entitled to take advantage of the small companies' exemptions in preparing the Directors' report and from the requirement to prepare a Strategic report.

#### **Responsibilities of Directors**

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

In preparing the financial statements, the Directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

### **Auditor's responsibilities for the audit of the financial statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

<https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

### **Use of our report**

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

BDO LLP

Anne Sayers (Senior Statutory Auditor)  
For and on behalf of BDO LLP, Statutory Auditor  
London, UK  
Date: 25 July 2019

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

Rathlin Energy (UK) Limited  
Statement of Comprehensive Loss  
For the year ended 31 December 2018

	2018	2017
	£	£
<b>Expenses</b>		
Other administrative expenses ( <i>note 7 and 8</i> )	(843,659)	(1,333,711)
Transaction costs ( <i>note 6</i> )	(219,605)	-
<b>Loss from operating activities before taxation</b>	<b>(1,063,264)</b>	<b>(1,333,711)</b>
Tax on loss on ordinary activities	-	-
<b>Loss and other comprehensive loss for the financial year</b>	<b>(1,063,264)</b>	<b>(1,333,711)</b>

See accompanying notes to the financial statements on page 14 - 36

Rathlin Energy (UK) Limited  
Statement of Financial Position  
As at

	31 December 2018	31 December 2017	01 January 2017
	£	£	£
<b>Assets</b>			
<b>Non-current assets</b>			
Intangible oil and gas assets ( <i>note 10</i> )	3,971,614	3,396,133	3,031,911
Property and equipment ( <i>note 11</i> )	14,958	19,441	25,363
	3,986,572	3,415,574	3,057,274
<b>Current assets</b>			
Trade and other receivables ( <i>note 12</i> )	1,560,541	141,897	128,862
Cash ( <i>note 13</i> )	4,789,881	315,345	103,281
	6,350,422	457,242	232,143
<b>Total assets</b>	<b>10,336,994</b>	<b>3,872,816</b>	<b>3,289,417</b>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Trade and other payables ( <i>note 14</i> )	745,934	32,915,532	30,944,369
<b>Non-current liabilities</b>			
Provision for decommissioning obligations ( <i>note 15</i> )	670,177	966,871	1,020,924
<b>Total liabilities</b>	<b>1,416,111</b>	<b>33,882,403</b>	<b>31,965,293</b>
<b>Net assets (liabilities)</b>	<b>8,920,883</b>	<b>(30,009,587)</b>	<b>(28,675,876)</b>
<b>Equity</b>			
Share capital ( <i>note 16</i> )	9,600,863	2,097	2,097
Share premium	12,302,440	12,522,045	12,522,045
Capital contribution reserve ( <i>note 18</i> )	30,487,601	-	-
Share-based payments reserve ( <i>note 17 and 18</i> )	126,972	-	-
Accumulated deficit	(43,596,993)	(42,533,729)	(41,200,018)
<b>Total equity</b>	<b>8,920,883</b>	<b>(30,009,587)</b>	<b>(28,675,876)</b>

See accompanying notes to the financial statements on page 14 - 36

The financial statements have been prepared in accordance with the provisions applicable to companies subject to the small companies regime.

The financial statements were approved by the board of Directors and authorized for issue on 25 July 2019. They were signed on its behalf by:

  
John A Hodgins  
Director  
25 July 2019

**Rathlin Energy (UK) Limited**  
**Statement of Changes in Equity**

	Share capital	Share premium	Capital contribution reserve	Share based payment reserve	Accumulated deficit	Total equity
	£	£	£	£	£	£
<b>Balance at 1 January 2017</b>	2,097	12,522,045	-	-	(41,200,018)	(28,675,876)
<b>Total comprehensive loss for the year</b>	-	-	-	-	(1,333,711)	(1,333,711)
<b>Balance 31 December 2017</b>	2,097	12,522,045	-	-	(42,533,729)	(30,009,587)
<b>Balance at 1 January 2018</b>	2,097	12,522,045	-	-	(42,533,729)	(30,009,587)
<b>Total comprehensive loss for the year</b>	-	-	-	-	(1,063,264)	(1,063,264)
<b>Transactions with owners of the Company</b>						
Issue of ordinary shares ( <i>note 16</i> )	9,598,766	-	30,487,601	-	-	40,086,367
Transaction costs of share issuance ( <i>note 16</i> )	-	(219,605)	-	-	-	(219,605)
<b>Issuance of warrants</b>	-	-	-	126,972	-	126,972
<b>Balance 31 December 2018</b>	9,600,863	12,302,440	30,487,601	126,972	(43,596,993)	8,920,883

See accompanying notes to the financial statements on page 14 - 36

Rathlin Energy (UK) Limited  
Statement of Cash Flows  
For the year ended 31 December 2018

	31 December 2018	31 December 2017
	£	£
<b>Cash flows from operating activities</b>		
Net loss for the period	(1,063,264)	(1,333,711)
Adjustments for:		
Depreciation ( <i>note 11</i> )	4,483	5,922
Accretion on decommissioning obligations ( <i>note 15</i> )	32,923	35,733
Share-based payment expenses ( <i>note 17</i> )	63,486	-
	(962,372)	(1,292,056)
Changes in:		
Trade and other receivables	(145,165)	(13,035)
Trade and other payables	1,680,163	1,971,163
Cash generated from operating activities	572,626	666,072
<b>Cash flows from financing activities</b>		
Proceeds from issuance of share capital ( <i>note 16</i> )	4,963,127	-
Transaction costs related to issuance of share capital ( <i>note 16</i> )	(156,119)	-
Cash generated from financing activities	4,807,008	-
<b>Cash flows from investing activities</b>		
Intangible oil and gas assets expenditures ( <i>note 10</i> )	(905,098)	(454,008)
Net increase in cash	4,474,536	212,064
Cash at beginning of year	315,345	103,281
Cash at 31 December	4,789,881	315,345

See accompanying notes to the financial statements on page 14 - 36

## **1. Nature of operations**

Rathlin Energy (UK) Limited ("Rathlin" or "the Company") is a United Kingdom based petroleum and natural gas exploration, development and production company. The Company's registered head office is Suite 1, 3<sup>rd</sup> Floor, 11-12 St. James Square, London, United Kingdom. All operations are in the pre-production phase of exploration.

## **2. Basis of preparation**

### **(a) Statement of compliance**

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB"), as adopted by the European Union ("EU") applied in accordance with the provisions of the Companies Act 2006. These are Rathlin's first financial statements prepared in accordance with IFRS and IFRS 1 "First Time Adoption of International Financial Reporting Standards" has been applied. Rathlin's significant accounting policies under IFRS are presented in note 3. These policies have been retrospectively and consistently applied except where specific exemptions permitted an alternative treatment upon transition to IFRS in accordance with IFRS 1. The impact of the new standards, including reconciliations presenting the change from Financial Reporting Standard 102 the Financial Reporting standard applicable in the UK and Republic of Ireland ("Previous GAAP") to IFRS as at 1 January 2016 and as at and for the years ended 31 December 2016 and 2017, is presented in note 25.

These financial statements were authorized by the Board of Directors on 25 July 2019.

### **(b) Functional and presentation currency**

These financial statements are presented in pound sterling which is the Company's functional and presentation currency.

### **(c) Basis of measurement and going concern**

The financial statements have been prepared on the historical cost basis. These audited financial statements for the years ended 31 December 2018 and 2017 have been prepared on a going concern basis which asserts that the Company has the ability to realize its assets and discharge its liabilities and commitment in the normal course of business for a period of no less than 12 months from the date of approval of the financial statements.

The Company is dependent on its existing cash resources and its ability to raise additional funding in order to develop its assets. Based on the cash balance at year end and the Company's commitments, the Directors are of the opinion that the Company has sufficient funds to cover its budgeted exploration programme and to meet its operational obligations as they fall due until the beginning of the fourth quarter of 2019. The Directors acknowledge that additional funds will be required to be raised to finance the Company's budgeted exploration and development programme and to meet its other operational obligations as they fall due beyond the beginning of the fourth quarter of 2019. These funds will need to be raised through capital raisings, partnership arrangements or other financing packages. At present there are no such arrangements in place. Whilst the Directors remain confident of being able to successfully raise the required financing, most likely by way of equity as has been achieved in the past, there can be no guarantee that this will occur. These circumstances indicate the existence of a material uncertainty which may cast significant doubt on the Company's ability to continue as a going concern. The financial statements do not include any adjustment that would result if the Company was unable to continue as a going concern which would principally relate to impairment of the Company's non-current assets.

**(d) Use of estimates and judgements**

The preparation of financial statements in conformity with IFRS requires management to make estimates and use judgement regarding the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities as at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the year. By their nature, estimates are subject to measurement uncertainty and changes in such estimates in future periods could require material changes in the financial statements. Accordingly, actual results may differ from the estimated amounts as future confirming events occur.

**(e) Critical judgements in applying accounting policies**

The following are critical judgements that management has made in the process of applying accounting policies and that have the most significant effect on the amounts recognized in the financial statements:

These audited financial statements for the years ended 31 December 2018 and 2017 have been prepared on a going concern basis which asserts that the Company has the ability to realize its assets and discharge its liabilities and commitment in the normal course of business for a period of no less than 12 months from the date of approval of the financial statements. The financial statements do not include any adjustment that would result if the Company was unable to continue as a going concern which would principally relate to impairment of the Company's non-current assets. Please refer to note 2(c) for further discussion regarding going concern.

Judgements are required to assess when impairment indicators exist and impairment testing is required.

The application of the Company's accounting policy for intangible oil and gas assets requires management to make certain judgements as to future events and circumstances as to whether economic quantities of reserves have been found.

Judgements are made by management to determine the likelihood of whether deferred tax assets at the end of the reporting period will be realized from future taxable earnings.

**(f) Key sources of estimation uncertainty**

The following are key estimates and their assumptions made by management affecting the measurement of balances and transactions in these financial statements:

**Decommissioning liabilities**

The Company estimates the decommissioning obligations for oil and natural gas wells and their associated production facilities and pipelines. In most instances, removal of assets and remediation occurs many years into the future. Amounts recorded for the decommissioning liabilities and related accretion expense require assumptions regarding removal date, future environmental legislation, the extent of reclamation activities required, the engineering methodology for estimating cost, inflation estimates, future removal technologies in determining the removal cost, and the estimate of the liability specific discount rates to determine present value of these cash flows.

**Assessment of carrying value of assets**

Qualifying exploration and evaluation costs are initially classified and held as intangible oil and gas assets rather than being expensed. In recording costs as intangible oil and gas assets, judgement is required as to the extent to which the costs are attributable to the discovery of specific hydro-carbon resources and include both internal and external costs. Expenditures are assessed for



impairment with reference to IFRS 6 indicators for impairment. This assessment involves judgement as to the status of licences and the likelihood of renewal of licences which expire in the near future including the ability to meet obligations, budgets and plans for future exploration activity, the results of exploration activity, and assessments of future recoverable values upon development.

#### **Warrants**

The Company's estimate of the fair value of warrants is dependent upon estimates of share price, volatility, interest rates, and expected terms to exercise.

#### **Share-based compensation**

The Company's estimate of share-based compensation is dependent upon estimates of share price, volatility, interest rates, expected terms to exercise and forfeiture rates.

### **3. Significant accounting policies**

The accounting policies set out below have been applied consistently to all periods presented in these financial statements. In addition to the quantitative adjustments from previous GAAP to IFRS certain comparative amounts have been reclassified to conform with current year's presentation as presented in note 25.

#### **(a) Joint arrangements**

The Company is part to a joint arrangement where there is a contractual agreement that sets out the terms of the relationship over relevant activities of the Company and at least one other party.

The Company classifies its interests in the joint arrangement as joint operations where the Company has both the rights to assets and obligations for the liabilities of the joint arrangement. The Company accounts for its interest in the joint operations by recognizing its share of assets, liabilities, revenues and expenses in accordance with its contractually conferred rights and obligations.

#### **(b) Intangible oil and gas assets and property and equipment**

##### **(i) Recognition and measurement**

##### *Intangible oil and gas assets*

Pre-licence costs are recognized in the statement of net loss and comprehensive loss as incurred.

Intangible oil and gas assets, including the costs of acquiring undeveloped land and drilling costs, are initially capitalized until the drilling of the well is complete and the results have been evaluated. Intangible oil and gas assets are not depreciated and are accumulated in cost centers by well, field, or exploration area pending determination of technical feasibility and commercial viability, subject to the provisions of the Company's impairment of exploration and evaluation policy. The technical feasibility and commercial viability of extracting a petroleum or natural gas resource is considered to be determined when proved or probable reserves are determined to exist. If proved and/or probable reserves are found, the drilling costs and associated undeveloped land are transferred to property and equipment.

##### **(ii) Depreciation**

Office equipment is depreciated over its estimated useful life at declining balance rates between 20 and 30 percent per annum. Depreciation methods, useful lives, and residual values are reviewed at each reporting period.

**(iii) Impairment**

The carrying amounts of the Company's property and equipment, other than intangible oil and gas 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.

Intangible oil and gas assets are reviewed regularly for indicators of impairment following the guidance in IFRS 6 "Exploration for and Evaluation of Mineral Resources" and tested for impairment where such indicators exist.

In accordance with IFRS 6 the Company considers the following facts and circumstances in their assessment of whether the Company's intangible oil and gas assets may be impaired:

- Whether the period for which the Company has the right to explore in a specific area has expired during the period or will expire in the near future, and is not expected to be renewed;
- Whether substantive expenditures on further exploration for and evaluation of mineral resources in a specific area are neither budgeted nor planned;
- Whether exploration for and evaluation of reserves in a specific area have not led to the discovery of commercially viable quantities of mineable material and the Company has decided to discontinue such activities in the specific areas; and
- Whether sufficient data exists to indicate that although a development in a specific area is likely to proceed, the carrying amounts of the intangible oil and gas assets is unlikely to be recovered in full, from successful development or by sale.

If any such facts and circumstances are noted, the Company, as a next step, performs an impairment test in accordance with the provisions of IAS 36. In such circumstances, the aggregate carrying value of intangible oil and gas assets is compared against the expected recoverable amount. The recoverable amount is calculated using the greater of its value in use and its fair value less costs to sell. These are defined below.

Value in use is determined as the net present value of the estimated future cash flows expected to arise from the continued use of the asset in its present form and its eventual disposal. Value in use is determined by applying assumptions specific to the Company's continued use and can only consider approved future development costs. Estimates of future cash flows used in the evaluation of impairment of assets are made using management's forecasts of commodity prices and expected production volumes. The latter takes into account assessments of field reservoir performance and includes expectations about proved and unproved volumes, which are risk-weighted utilizing geological, production, recovery and economic projections.

Fair value less cost to sell is determined as the amount that would be obtained from the sale of an asset in an arm's length transaction between knowledgeable and willing parties. Factors considered in this determination include but are not limited to company specific Board authorized financing transactions, recent transactions involving industry peers, and other publicly available information.

Any impairment recognized during a period is charged as additional depreciation expense.

Impairment losses recognized in prior years are assessed at each reporting date if facts and circumstances indicate 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 depletion and depreciation, if no impairment loss had been recognized.

**(c) Provisions**

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, 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 "risk-free" rate that reflects current market assessments of the time value of money and the risks specific to the liability. Provisions are not recognized for future operating losses.

The Company's activities give rise to dismantling, decommissioning and site disturbance remediation activities. Provision is made for the estimated cost of abandonment and site restoration and capitalized in the relevant asset category.

Decommissioning obligations are measured at the present value of management's best estimate of the expenditure required to settle the present liability as at the reporting date. Subsequent to the initial measurement, the liability is adjusted at the end of each period to reflect the passage of time and changes in the estimated future cash flows underlying the liability. The increase in the provision due to the passage of time is recognized as accretion on decommissioning liabilities as a financing expense whereas increases or decreases due to changes in the estimated future cash flows or changes in the discount rate are capitalized. In the event the underlying asset has previously been impaired, the changes in estimated future cash flows or changes in the discount rate are recorded as an impairment revision and charged as additional depreciation expense. Actual costs incurred upon settlement of the decommissioning liabilities are charged against the provision to the extent the provision is established.

**(d) Income taxes**

Income tax expense is comprised of current and deferred tax. Income tax expense is recognized in the statement of net loss and comprehensive loss except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

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

Deferred tax is recognized on the temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized on the initial recognition of assets or liabilities in a transaction that is not a business combination. In addition, deferred tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

**(e) Foreign currency translation**

Transactions in foreign currencies are translated into the functional currency of the entity at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the exchange rate in effect on the statement of financial position date. Foreign exchange gains and losses arising on translation are recognized in net loss and comprehensive loss in the period in which they arise.

**(f) Financial instruments**

**Non-derivative financial instruments**

Non-derivative financial instruments consist of cash, trade and other receivables and trade and other payables. Non-derivative financial instruments are recognized initially at fair value net of any directly attributable transaction costs.

Subsequent to initial recognition, non-derivative financial instruments are measured as described below:

**(i) Cash**

Cash is comprised of cash on hand and is measured at amortized cost.

**(ii) Other**

Other non-derivative financial instruments, such as trade and other receivables and trade and other payables are measured at amortized cost.

Discounting is omitted where the effect of discounting is immaterial.

**Impairment of financial assets**

A financial asset is assessed to determine where there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

The Company assesses the expected credit losses on a forward-looking basis, defined as the difference between the contractual cash flows that are expected to be received, associated with its assets carried at amortized cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk. For trade and other receivables only, the simplified approach permitted by IFRS 9 is applied, which requires expected lifetime losses to be recognized from initial recognition of the receivables. Losses are recognized in comprehensive loss. When a subsequent event causes the amount of the impairment to decrease, the decrease in impairment is reversed through the statement of comprehensive loss.

**(g) Share capital**

Ordinary shares are classified as equity. Incremental costs and proceeds paid in excess of directly attributable to the issue of common shares are recognized as a deduction from equity and included in the share premium account.

**(h) Share based payments – warrants**

Equity settled share-based payments with respect of warrants for professional services are measured at fair value of the equity instrument at the grant date, on the basis that this is not materially different from the fair value of services provided. The fair value is determined by using the Black-Scholes-Merton option pricing model. Details regarding the determination of the fair value of equity-settled share-based transactions are set out in note 17. The fair value at the grant-date of the equity settled share-based payment is expensed on a straight-line basis over the vesting term based on the Company's estimate of the number of instruments that will eventually vest. When a warrant expires, the cumulative expense recognized in the share-based payment reserve is reversed to the relevant component of equity in line with the original recognition of the expense.

**(i) Share based payments – share options**

Stock-based compensation cost is based on the estimated fair value of options granted at the time of the grant by using the Black-Scholes-Merton option pricing model. The fair value is recognized as stock-based compensation expense with a corresponding increase to contributed surplus over the vesting period of the options. Amounts related directly to exploration and development activities are capitalized. Upon the exercise of the stock options, consideration paid is recorded as an increase in share capital and a reserve transfer is made for the accumulated expense. A forfeiture rate is estimated on the grant date and is adjusted to reflect the actual number of options that vest.

**4. Recent accounting pronouncements**

The following new standard is not yet effective and has not been applied in preparing these financial statements:

IFRS 16 "Leases" provides a new model for lessee accounting in which all leases, other than short-term and small ticket item leases, will be accounted for by the recognition on the balance sheet of a right-to-use asset and a lease liability, and the subsequent amortization of the right-to-use asset over the lease term. IFRS 16 will be effective for annual periods beginning on or after 1 January 2019.

The Company adopted IFRS 16 on 1 January 2019 for periods beginning on or after that date. The requirements of IFRS 16 will extend to the Company's operating leases for office premises included in note 21 and as such the Company expects a material impact with these leases being recognized on the balance sheet.

The estimated impact of the implementation of this standard is set out below:

- Recognition of a lease liability and right of use asset, the initial impact of which is an increase in property and equipment and in total liabilities of £73,015. The net impact on net assets is not material.
- A new finance expense due to the lease finance charge, estimated to be £4,712 in 2019, but reducing thereafter.
- Increase in annual depreciation of property and equipment of £22,466 for the duration of the lease.
- Elimination of the former operating lease rental expense, which amounted to £23,375 in 2018.

There are no other standards and interpretations in issue but not yet adopted that Management anticipate will have a material effect on the reported income or net assets of the Company.

## **5. Determination of fair values**

Where required, fair values have been determined for measurement and/or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

Financial instruments measured at fair value on the balance sheet require classification into one of the following levels of the fair value hierarchy:

- Level 1 Valuation based on quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 Valuation based on inputs other than quoted prices included in level 1, that are observable directly or indirectly.
- Level 3 Valuation based on inputs that are not based on observable market data.

The fair value hierarchy level at which a fair value measurement is categorized is determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety. The Company has categorized its financial instruments that are fair valued on the statement of financial position according to the fair value hierarchy.

## **6. Joint operations**

During 2018, the Company entered in a series of concurrent transactions with an effective date of 30 November 2018:

Rathlin farmed out 33.33 percent of its ownership interest in Petroleum and Exploration Development Licence 183 ("PEDL 183"). In exchange for 33.33 percent working interest two new joint venture partners agreed to fund a total of 50 percent of the costs to drill and complete the West Newton appraisal well. Operations commenced in the second quarter of 2019 and total cost for the planning, drilling and completion of the appraisal well is expected to be £6.8 million. This transaction had no effect on intangible oil and gas asset carrying values other than a reduction of £345,701 which is offset in provisions for decommissioning obligations. The entry reflects the Company's reduced obligation due to the change of working interest to 66.67 percent from 100 percent. The carrying value of the intangible asset is now assessed at the Company's remaining ownership interest of 66.67 percent.

In conjunction with the above farm-out agreement, the Company completed private placements as described in note 16.

Total costs of £439,210 were incurred as part of the above transactions. The costs have been allocated to each component of transactions. As a result, £219,605 is included as a reduction of equity and included in the share premium account. The remaining £219,605 has been included in administrative expenses for the year ended 31 December 2018.

## 7. Operating loss

	2018	2017
	£	£
Operating loss is stated after charging:		
Accretion on decommissioning obligations	32,924	35,733
Depreciation of property and equipment	4,483	5,922
Share-based payments	63,486	-
Fees payable to the Company's auditor for:		
Audit of these financial statements	23,800	6,300
Tax compliance service	10,573	2,573

## 8. Remuneration of directors and staff

	2018	2017
	£	£
Staff (Including directors)	8	7
Wages and salaries	68,717	127,010
Fees paid to directors	8,400	12,005
Social security costs	2,466	36,709
Pension contributions	1,650	261
	81,233	175,985

## 9. Taxation

	2018	2017
	£	£
Current tax on income in period	-	-
Deferred tax	-	-
Total Tax	-	-
Reconciliation of effective tax rate:		
Loss on ordinary activities before taxation	(1,063,264)	(1,333,711)
Tax using UK corporate tax rate of 19% (2017: 19%)	(202,020)	(253,405)
Effects of:		
Adjustment in relation to share based payment	12,062	-
Current period losses for which no deferred tax asset was recognized	189,958	253,405
Total tax expense included in profit or loss	-	-

#### Deferred tax

The Company has unrealized tax losses which can be recovered against tax profits in the future. A deferred tax asset has not been recognized as it is uncertain that the Company will generate suitable taxable profits in the future. Losses of £43,654,588 (2017: £42,533,729) have been carried forward.

Reductions in the UK corporate tax rate to 19% (effective 29 March 2017) and to 18% (effective 1 April 2020) was substantively enacted on 26 October 2015. An additional reduction to 17% (effective 29 March 2020) was substantively enacted on 6 September 2016. This will reduce the Company's future current tax charges accordingly.

#### 10. Intangible oil and gas assets

	2018	2017
	£	£
At 1 January	3,396,133	3,031,911
Costs incurred during the year	575,481	364,222
At 31 December 2018	3,971,614	3,396,133

There is no amortization charge for the year, as intangible oil and gas assets are not yet in production.

Additions to intangible oil and gas assets represent exploration and appraisal costs incurred in the year in respect of unproven properties and provisions recognized for decommissioning and restoration liabilities. All costs are related to Petroleum Exploration and Development Licence 183 ("PEDL 183"). Included in the additions for the year ended 31 December 2018 is £382,201 (2017: £101,552) in capitalized administrative costs directly related to the acquisition, exploration, and development of petroleum and natural gas properties.

Effective 30 November 2018, the Company entered into a farm-in agreement with two joint venture parties. In exchange for each incurring 25 percent of the costs to drill and test an appraisal well in the Humber basin, each company will earn a 16.65 percent interest in PEDL 183. See note 6 for additional information. Once drilling and testing operations are complete, Rathlin will hold a 66.67 percent working interest PEDL 183.

During 2018 and 2017, the Company reviewed the carrying amount of its intangible assets for indicators of impairment such as changes in future prices, future costs and recent market activity. Information considered in the determination of fair value included financing transactions within the Company, recent transactions involving industry peers, and other publicly available information. Based on this review, the Company did not identify any indicators of impairment and as such no impairment has been recognized during 2018 and 2017.

During 2016, the Company reviewed the carrying amount of its intangible assets for indicators of impairment such as changes in future prices, future costs, and recent market activity. Based on this review, the Company tested its intangible assets for impairment in accordance with the Company's accounting policy. As a result, the Company recognized in the statement of comprehensive loss a £34,836,833 impairment related to certain projects included in intangible fixed assets. The impairments were calculated as the difference between the period end net book value of the assets and the recoverable amount, were taken in the fourth quarter of 2016 and recorded as impairment of intangible assets expense. The recoverable amount was determined based on the greater of its value in use and its fair value less costs to sell. The fair value less costs to sell was determined as the



amount that would have been obtained from the sale of an area or field in an arm's length transaction between knowledgeable and willing parties.

The impairment loss was assessed at 31 December 2018 to determine if facts and circumstances, consistent with IFRS 6, indicate that the loss has decreased or no longer exists. Based on this review, the Company did not identify any indicators that the impairment previously recorded has decreased or no longer exists and as such no reversal of the historic impairment has been recognized in 2018 or 2017.

## 11. Property and equipment

	Office furniture	Computer equipment	Total
	£	£	£
<b>Cost</b>			
Cost 31 December 2018 and 2017	51,677	46,649	98,326
<b>Depreciation</b>			
Balance, 1 January 2017	34,814	38,149	72,963
Charge for the year	3,372	2,550	5,922
Balance, 31 December 2017	38,186	40,699	78,885
Charge for the year	2,698	1,785	4,483
Balance, 31 December 2018	40,884	42,484	83,368
<b>Net Book Value</b>			
At 31 December 2018	10,793	4,165	14,958
At 31 December 2017	13,491	5,950	19,441
At 31 December 2016	16,863	8,500	25,363

## 12. Trade and other receivables

	2018	2017
	£	£
Prepayments	55,865	78,280
VAT receivable	45,931	15,231
Joint operation receivables	185,266	-
Unpaid share capital debtors	1,273,479	-
Amounts owed from group undertaking	-	48,386
At 31 December	1,560,541	141,897

All debtors are due within one year.

During the year, the amounts owed from group undertakings were settled.

The Company applies IFRS 9 to measure expected credit losses for receivables and these are regularly monitored and assessed. Trade and other receivables are subject to an expected credit loss provision when it is probable that amounts outstanding are not recoverable as set out in the accounting policy. The impact of expected credit losses was immaterial.

During the year no expected credit losses were recognized in terms of IFRS 9. The Directors expect the unpaid share capital balance to be settled within 12 months from the end of the reporting period. The Directors consider that the carrying amount of trade and other receivables approximate their fair value.

### 13. Cash

	2018	2017
	£	£
Cash at bank	4,789,881	315,345

### 14. Trade and other payables

	2018	2017
	£	£
Trade payables	693,217	45,931
VAT payable	52,717	-
Amounts owed to parent undertaking	-	32,869,601
At 31 December	745,934	32,915,532

During the year, the amounts owed to Connaught Oil & Gas Limited, the ultimate parent company and ultimate controlling party prior to 30 November 2018 was settled through the issuance of ordinary shares. The Company issued 3,362,160 ordinary shares to settle the total loan amount of £33,849,760. The effective date for this exchange was 7 November 2018. The excess over the nominal value of the shares has been treated as a capital contribution.

### 15. Provisions for decommissioning obligations

	2018	2017
	£	£
At 1 January	966,871	1,020,924
Additions	16,084	-
Revisions during the year	(345,701)	(89,786)
Accretion	32,923	35,733
At 31 December	670,177	966,871

The provision for decommissioning is in respect to the West Newton site.

During 2018, the Company initiated operations for a West Newton appraisal well. At 31 December 2018, the estimated obligation to decommission the initial well at West Newton, including abandonment and reclamation, was £654,093. As a result of the joint operations described in note 6, the existing obligation for the initial West Newton well decreased by £345,701. The decrease reflects the Company's decrease in working interest from 100 percent to 66.67 percent. At 31 December 2018, the appraisal well required minimal reclamation work as the site was in the preparation stages for drilling, therefore the associated obligation was £16,084. Again, this represents the Company's working interest of 66.67 percent.

The provision at 31 December 2018 and 2017 represents the present value of the amounts that are expected to be incurred during 2033 to decommission the West Newton site. The provision was determined using an engineer's estimates that management believes form a reasonable basis for the expected future costs of decommissioning.

## 16. Share capital

The Company is authorized to issue an unlimited number of ordinary shares with a nominal par value of £1.00.

<b>Allotted and issued</b>	<b>Number</b>	<b>£</b>
Balance at 31 December 2017	2,097	2,097
Issue of shares to ultimate parent company	3,362,160	3,362,160
Issue of shares through private placement	3,560,000	3,560,000
Issue of shares through private placement	2,676,606	2,676,606
<b>At 31 December 2018</b>	<b>9,600,863</b>	<b>9,600,863</b>

Ordinary shares hold voting rights and are entitled to any distributions made on winding up. Ordinary shares have a nominal value of £1.00/share. Shares issued through the private placement include an unpaid portion of £1,273,479. All other shares issued and outstanding are fully paid.

### Allotments during the year

In October 2018, 3,362,160 new ordinary shares with a nominal value of £1.00 were issued at £10.07 per share and are fully paid. Ordinary shares were issued to the ultimate parent company prior to 30 November 2018 to settle a loan outstanding. Total consideration received was £33,849,760, which extinguished the intercompany loan balance. Of this consideration, £30,487,601 has been recognized in the capital contribution reserve. No issue costs were associated with this allocation.

In November 2018, 3,560,000 new ordinary shares with a nominal value of £1.00 were issued. Total consideration received was £3,000,000 with the remaining balance of £560,000 being recognized as an unpaid balance and included in the trade and other receivables balance as at 31 December 2018.

In November 2018, 2,676,606 new ordinary shares with a nominal value of £1.00 were issued. Total consideration received was £1,963,127 with the remaining balance of £713,479 being recognized as an unpaid balance and included in the trade and other receivables balance as at 31 December 2018.

Transaction costs of £219,605 have been charged to the share premium account associated with the above allocations.

## 17. Share-based payment – warrants

During 2018, the Company entered in an arrangement with a third party to issue 296,664 warrants in exchange for services. Services rendered were considered complete effective 30 November 2018 in conjunction with the joint operations and equity financings discussed in note 6. Due to an administrative issue, warrants have not yet been granted. As the Company has a legal obligation to issue warrants based on the terms of the contract where services were considered rendered effective 30 November 2018, the Company has recognized the expense associated with the warrants. The estimated fair value per warrant was £0.43. As all warrants will be issued fully vested, the total

expense of £126,972 has been recognized, of which £63,486 has been reflected as a share issue cost and £63,486 has been recognized as an administrative expense.

The following significant assumptions were used in the Black-Scholes-Merton option pricing model to estimate the fair value of warrants:

	<b>2018</b>
Risk-free interest rate	3.10%
Share price	£ 0.84
Exercise price	£ 0.84
Expected life	3.0 years
Estimated forfeiture rate	0
Expected volatility	75%
Expected dividends	nil

As the Company is private with limited volatility information being available, the Company has used an expected volatility consistent with industry peers.

## **18. Reserves**

The nature and purpose of each reserve within equity is as follows:

Share capital represents the nominal value of shares issued and outstanding.

Share premium represents the amount subscribed for share capital in excess of nominal value, less any related transaction costs.

Capital contribution reserve represents amounts contributed to the Company by existing shareholders in excess of nominal values.

Share based payment reserve represents the cumulative cost of warrants issued in return for professional services and share-based compensation expense recognized in connection with share options issued.

The accumulated deficit represents cumulative profits or losses.

## **19. Capital management**

The Company's policy is to maintain a strong capital base in order to maintain shareholder and creditor confidence and to sustain the future development of the business. The Company considers its capital structure to include shareholders' equity and working capital.

The Company will adjust its capital structure to manage any projected deficiencies of working capital through the issuance of shares, the use of available credit facilities, the sale of assets, the farming out of properties and adjusting its capital spending if necessary. The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions and the resulting cash flow from operations as well as the risk characteristics of the underlying petroleum and natural gas assets. The Company is not subject to any externally imposed capital requirements.

The Company monitors its capital structure primarily using working capital levels. To facilitate the management of working capital the Company prepares annual budgets, which reflect the expected results of operations and capital deployment, forecasted prices and costs, general industry conditions and other factors.

As at 31 December 2018, the Company had positive working capital of £5,604,488 as detailed below:

	2018	2017
	£	£
Current assets	6,350,422	457,242
Current liabilities	(745,934)	(32,915,532)
	5,604,488	(32,458,290)

## 20. Financial instruments

### (a) Fair value of financial instruments

The Company's financial instruments as at 31 December 2018 and 2017 include cash, trade and other receivables, and trade and other payables. The fair value of these assets approximates their carrying values due to their short terms to maturity.

### (b) Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the Company's receivables from joint interest partners and petroleum and natural gas marketers. The Company has adopted a policy of only dealing with creditworthy counterparties.

Joint interest receivables are typically collected within one month of the joint interest bills being issued to the partner. However, the receivables are from participants in the petroleum and natural gas sector and collection of the outstanding balances may be dependent on industry factors such as commodity price fluctuations, escalating costs, the risk of unsuccessful drilling and disagreements between parties. The Company attempts to mitigate this risk by obtaining partner approval of significant capital expenditures prior to performance of the project. The Company does not typically obtain collateral from petroleum and natural gas marketers or joint interest partners; however, in certain circumstances cash calls may be requested in advance of the start of the project. In some cases, the Company does have the ability to enact default proceedings against partners which could result in the licence share being returned to Company in the event of non-payment.

The carrying amount of cash and trade and other receivables represents the maximum credit exposure faced by the Company. The Company is currently exposed to credit risk on its cash to the extent that these balances are invested with various institutions. The Company adheres to a strict investment strategy that defines the various types of investment instruments and institutions that can be invested in and monitors these on a regular basis. The Company does not have any expected credit losses and has not written off any receivables during the years ended 31 December 2018 and 2017.

As at 31 December 2018 and 2017, the aging of the Company's receivables is as follows:

	2018	2017
	£	£
Less than 2 months	1,504,676	15,231
Greater than six months	-	48,386
	1,504,676	63,617

**(c) Liquidity risk**

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they are due. The Company's approach to managing liquidity is to ensure, to the extent possible, that it will have sufficient liquidity to meet its liabilities when due, under normal and stressed conditions without incurring unacceptable losses or risking harm to the Company's reputation.

The Company prepares annual capital expenditure budgets, which are regularly monitored and updated as considered necessary. In addition, Connaught utilizes authorizations for expenditures on both operated and non-operated projects to further manage capital expenditures.

In managing liquidity risk, the main objective of the Company is to ensure that it has the ability to pay all of its liabilities as they fall due. The Company monitors its levels of working capital to ensure that it can meet its liabilities as they fall due.

As at 31 December 2018 and 2017, the undiscounted cash flows of the Company's financial liabilities on the basis of their earliest possible contractual maturity is as follows:

	2018	2017
	£	£
Trade payables		
Less than 2 months	350,720	15,812
Other payables and accruals		
Less than 2 months	357,714	18,119
Over 6 months	37,500	32,881,601
	395,214	32,899,720
	745,934	32,915,532

Included in the 31 December 2018 trade payables balance with maturities of less than 2 months is £206,371 in liabilities which are denominated in Canadian dollars. The Canadian dollar equivalent is \$353,347. Included in the 31 December 2018 other payables and accruals balance with maturities of less than 2 months is £34,711 in liabilities which are denominated in United States dollars. The United States dollar equivalent is \$44,152. No amounts included in the 31 December 2017 balances are denominated in foreign currencies.

Rathlin has not utilized any derivative instruments or other financial instruments to manage its exposure to fluctuations in foreign currency rates.

**(d) Derivatives, financial instruments and risk management**

The Company is exposed to commodity price risk associated with sales of oil and natural gas. Rathlin has not utilized any derivative instruments or other financial instruments to manage its exposure to fluctuations in market risks.

**(e) Borrowings and interest rate risk**

The Company currently has no borrowings.

The Company's principle financial assets are cash and trade and other receivables. Cash include amounts held on deposit with financial institutions. The effect of variable interest rates is not significant.

**21. Commitments**

On 29 June 2016, the Company received approval from the UK Department for Business, Energy and Industrial Strategy ("BEIS") to amend the existing 13<sup>th</sup> onshore round licence to 2014 (14<sup>th</sup> onshore round) model clauses. As part of this amendment, and subsequent extension granted in May 2018, the Company retained 73 percent of the original licence area and relinquished 27 percent of the original licence area as opposed to 50 percent as required under the terms of the original licence terms. In addition, the Company committed to drill and test an appraisal well prior to 30 June 2019 and complete further geotechnical studies by 30 June 2020. The Company estimates the costs of these commitments to be approximately £7.3 million gross (£4.9 million net).

The Company has committed to certain payments over the next three years with respect to the leasing of office space. The minimum lease payments under non-cancellable operating leases fall due as follows:

	2018	2017
	£	£
Less than one year	25,500	25,500
Between one and three years	57,375	6,375

During the year, £23,375 (2017: £25,500) was recognized as an expense in the income statement in relation to the operating lease.

**22. Related parties**

Details of key management personal remuneration is disclosed in note 8. Key management is comprised of the directors.

Prior to 30 November 2018, the Company was a wholly owned subsidiary of Connaught Oil & Gas Ltd. ("Connaught"). As a result of the transactions discussed in note 6, Connaught holds a 35 percent ownership interest in Rathlin at 31 December 2018. During 2018, Rathlin incurred expenses for management services totaling £874,519 (2017: £864,286) from Connaught. Of this amount £202,813 (2017: £ nil) are included in the creditors balance as at 31 December 2018. These amounts were billed at rates consistent with those charged by third parties.

During 2018, Rathlin incurred expenses totaling £42,760 (2017: £80,000) from a management consulting company in which David Montagu-Smith, Director of the Company, is the owner. Of this amount £ nil (2017: £ nil) are included in the creditors balance as at 31 December 2018. These amounts were billed at rates consistent with those charged to third parties.

### **23. Corporate structure**

Prior to 30 November 2018, Rathlin was a subsidiary of Sunderland Holdings Limited which was the immediate parent company incorporated in Jersey. The ultimate parent company and controlling party was Connaught Oil & Gas Ltd., incorporated in Canada.

Subsequent to the transactions discussed in note 6, Connaught Oil & Gas Ltd. holds a 35 percent ownership interest in Rathlin. In November 2018, Reabold Resources PLC acquired a 37 percent ownership interest in Rathlin. As Reabold Resources PLC is the larger shareholder of the two shareholders noted, for purpose of identifying the ultimate controlling party for the accounts disclosure, that is considered to be Reabold Resources PLC. No other shareholders hold an interest in excess of 20 percent. Prior to 30 November 2018, the results of the Company were consolidated in the group statements headed by Connaught Oil & Gas Ltd. Subsequently the results are no longer included in any group reportings.

### **24. Events after the reporting period**

Subsequent to the end of the reporting period, the Company adopted a share option plan under which the Board of Directors may grant options to directors, officers, employees, and consultants. Options granted vest equally over a three-year period and expire five years from the date of grant, or earlier if the option holder ceases to be associated with the Company.

On 1 May 2019, the Company granted 989,000 share options to directors, employees, and consultants of the Company. The options vest over a three-year period, have an exercise price of £0.84 per share and expire 5 years from the date of grant. The fair value of options granted was £0.53 per option. The fair value is recognized as stock-based compensation expense with a corresponding increase to share based payment reserve over the vesting period of the options. The amounts will be recognized during the second quarter of 2019 consistent with timing of the grant.

Subsequent to the end of the reporting period, on 1 May 2019, 296,665 new ordinary shares with a nominal value £1.00 were issued. Total consideration received was £250,000 with the remaining balance of £46,665 being recognized as an unpaid balance and included in the trade and other receivables balance at the time of issuance.

### **25. Transition to IFRS**

The Company's accounting policies under IFRS differ from those followed under previous GAAP as described in note 3. These accounting policies have been applied to the opening statement of financial position on the transition date, 1 January 2016, and the comparative information for the years ended 31 December 2017 and 2016.

The adjustments arising from the application of IFRS to amounts on the statement of financial position on the transition date and on transactions prior to that date, were recognized as an adjustment to the Company's opening deficit category on the statement of financial position when appropriate.



On transition to IFRS on 1 January 2016 the Company used certain exceptions allowed under IFRS 1 "First time adoption of international reporting standards". The exemption used was:

#### Deemed Cost

IFRS allows an entity that used full costs accounting under its previous GAAP to elect, at the time of adoption to IFRS, to measure petroleum and natural gas assets included in intangible oil and gas assets at the carrying amount determined under previous GAAP.

#### Reconciliation of Statement of Financial Position from Previous GAAP to IFRS

##### As at date of transition - 1 January 2016

	Note	Previous GAAP £	Effect of transition to IFRS £	IFRS £
<b>Assets</b>				
<b>Non-current assets</b>				
Intangible oil and gas assets	a, b, c	37,382,527	(49,426)	37,333,101
Property and equipment		29,906	-	29,906
		37,412,433	(49,426)	37,363,007
<b>Current assets</b>				
Trade and other receivables		486,610	-	486,610
Cash		1,594,997	-	1,594,997
		2,081,607	-	2,081,607
<b>Total assets</b>		<b>39,494,040</b>	<b>(49,426)</b>	<b>39,444,614</b>
<b>Liabilities</b>				
<b>Current liabilities</b>				
Trade and other payables		(30,974,410)	-	(30,974,410)
<b>Non-current liabilities</b>				
Provision for decommissioning obligations		(1,250,601)	-	(1,250,601)
<b>Total liabilities</b>		<b>(32,225,011)</b>	<b>-</b>	<b>(32,225,011)</b>
<b>Net assets</b>		<b>7,269,029</b>	<b>(49,426)</b>	<b>7,219,603</b>
<b>Equity</b>				
Share capital		2,097	-	2,097
Share premium		12,522,045	-	12,522,045
Deficit		(5,255,113)	(49,426)	(5,304,539)
<b>Total equity</b>		<b>7,269,029</b>	<b>(49,426)</b>	<b>7,219,603</b>

## Reconciliation of Statement of Financial Position from Previous GAAP to IFRS

As at 31 December 2016

	Note	Previous GAAP £	Effect of transition to IFRS £	IFRS £
<b>Assets</b>				
<b>Non-current assets</b>				
Intangible oil and gas assets	a, b, c	3,031,911		3,031,911
Property and equipment		25,363	-	25,363
		3,057,274	-	3,057,274
<b>Current assets</b>				
Trade and other receivables		128,862	-	128,862
Cash		103,281	-	103,281
		232,143	-	232,143
<b>Total assets</b>		<b>3,289,417</b>	<b>-</b>	<b>3,289,417</b>
<b>Liabilities</b>				
<b>Current liabilities</b>				
Trade and other payables		(30,944,369)	-	(30,944,369)
<b>Non-current liabilities</b>				
Provision for decommissioning obligations		(1,020,924)	-	(1,020,924)
<b>Total liabilities</b>		<b>(31,965,293)</b>	<b>-</b>	<b>(31,965,293)</b>
<b>Net assets</b>		<b>(28,675,876)</b>	<b>-</b>	<b>(28,675,876)</b>
<b>Equity</b>				
Share capital		2,097	-	2,097
Share premium		12,522,045	-	12,522,045
Deficit		(41,200,018)		(41,200,018)
<b>Total equity</b>		<b>(28,675,876)</b>	<b>-</b>	<b>(28,675,876)</b>

## Reconciliation of Statement of Loss and Comprehensive Loss

For the year ended 31 December 2016

	Note	Previous GAAP	Effect of transition to IFRS	IFRS
<b>Expenses</b>				
Administrative		(1,108,072)	-	(1,108,072)
Impairment of intangible assets	b, c	(34,836,833)	49,426	(34,787,407)
<b>Loss from operating activities before taxation</b>		<b>(35,944,905)</b>	<b>49,426</b>	<b>(35,895,479)</b>
Tax on loss on ordinary activities		-	-	-
<b>Loss and other comprehensive loss for the financial year</b>		<b>(35,944,905)</b>	<b>49,426</b>	<b>(35,895,479)</b>

## Reconciliation of Statement of Financial Position from Previous GAAP to IFRS

As at 31 December 2017

	Note	Previous GAAP £	Effect of transition to IFRS £	IFRS £
<b>Assets</b>				
<b>Non-current assets</b>				
Intangible oil and gas assets	a, b, c	3,396,133		3,396,133
Property and equipment		19,441	-	19,441
		3,415,574	-	3,415,574
<b>Current assets</b>				
Trade and other receivables		141,897	-	141,897
Cash		315,345	-	315,345
		457,242	-	457,242
<b>Total assets</b>		<b>3,872,816</b>	<b>-</b>	<b>3,872,816</b>
<b>Liabilities</b>				
<b>Current liabilities</b>				
Trade and other payables		(32,915,532)	-	(32,915,532)
<b>Non-current liabilities</b>				
Provision for decommissioning obligations		(966,871)	-	(966,871)
<b>Total liabilities</b>		<b>(33,882,403)</b>	<b>-</b>	<b>(33,882,403)</b>
<b>Net assets</b>		<b>(30,009,587)</b>	<b>-</b>	<b>(30,009,587)</b>
<b>Equity</b>				
Share capital		2,097	-	2,097
Share premium		12,522,045	-	12,522,045
Deficit		(42,533,729)		(42,533,729)
<b>Total equity</b>		<b>(30,009,587)</b>	<b>-</b>	<b>(30,009,587)</b>

## Notes to reconciliations

### (a) IFRS election for full cost oil and gas entities

The Company elected to use an IFRS 1 exemption whereby the previous GAAP full cost pool was used to measure intangible oil and gas assets on transition to IFRS. As the Company has no developed and producing assets, the full cost pool was fully allocated to intangible oil and gas assets which composes the exploration and evaluation activities of the Company on the Humber licence.

### (b) Pre-licence costs

Under previous GAAP, costs incurred in areas prior to acquiring mineral rights were capitalized as part of the full cost pool. Under IFRS, as the Company does not hold mineral rights in the area, these costs are recognized in the statement of loss and comprehensive loss as incurred. Upon transition to IFRS the impact of this change was £49,426 decrease to the carrying value of intangible oil and gas assets with a corresponding increase to the deficit on the statement of financial position. For the

year ended 31 December 2016, the impact of this change was £49,426 decrease to impairment recognized. As at 31 December 2017 and 2016, there was no adjustment to the carrying value of intangible oil and gas assets or deficit in the statement of financial position.

**(c) Impairment of Intangible oil and gas assets**

In accordance with IFRS, impairment tests of intangible oil and gas assets must be performed if (i) sufficient data exists to determine technical feasibility and commercial viability, and (ii) facts and circumstances suggest amount exceeds the recoverable amount. For the Company, the recoverable amount is determined using the higher of fair value less costs to sell and value in use. There was no impairment to intangible oil and gas assets on 1 January 2016. As a result of the pre-licence costs expensed as noted above, for the year ended 31 December 2016, the impairment charge decreased by £49,426. No impairments were recognized in excess of those recognized under previous GAAP for the year ended 31 December 2017.