

Parent for: 8891699

Registered number: 08838907

Nobel Oil E&P (UK) Limited

**Directors' Report and Consolidated Financial Statements for the Year
Ended 31 December 2019**



Nobel Oil E&P (UK) Limited

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Nobel Oil E&P (UK) Limited

Directors and advisers

Directors

Lawrence E Bates
Matthew J Bryza
Yusif Jabbarov
Francis S Sommer

Registered office

48 Dover Street
London W1S 4FF
United Kingdom

Independent auditor

Ernst & Young LLP
1 More London Place
London SE1 2AF
United Kingdom

Registered number

08838907

Nobel Oil E&P (UK) Limited

Strategic report for the year ended 31 December 2019

The Directors present their strategic report on Nobel Oil E&P (UK) Limited ("Company") and its Group for the year ended 31 December 2019. For the purposes of this report the "Group" means the Company and all its subsidiary undertakings. The trade name used by the Group is "Nobel Upstream".

Overview of business

The principal activities of the Group during the year were to invest in and manage investments in oil and gas operations. See note 12 of the financial statements for further details.

The Company is a limited company, which acts as a holding company of the Group and is incorporated and domiciled in the United Kingdom. The address of its registered office is 48 Dover Street, London, England, W1S 4FF, United Kingdom.

During 2019, paid-up share capital of the Company remained unchanged at \$89,420,000 representing 89,420,000 issued ordinary shares of \$1 each.

During 2019, paid-up share capital of the Company's wholly-owned subsidiaries were as follows:

- Nobel Oil E&P North America (UK) Limited remained unchanged at \$43,593,737 (2018: was increased by \$12,724,022 to \$43,593,737 in exchange for 12,724,022 shares issued at \$1 each),
- Nobel Oil E&P Management (UK) Limited remained unchanged at \$36,160,000 representing 36,160,000 ordinary shares issued at \$1 each,
- Nobel Oil E&P Caspian Limited remained unchanged at GBP £101 representing 100 ordinary shares issued at £1 each and 1 ordinary share issued at £17,082,764 and
- Nobel Oil E&P North Sea Limited remained unchanged at \$16,000,100 (2018: was increased by \$6,000,000 to \$16,000,100 in exchange for 6,000,000 shares issued at \$1 each).
- Nobel Upstream Management PLC was incorporated on 3 June 2019 as a wholly-owned subsidiary of Nobel Oil E&P Management (UK) Limited with a share capital of \$75,000 representing 75,000 ordinary shares issued at \$1 each. The share capital remained unchanged from incorporation to 31 December 2019.

Strategy

The strategy of the Group is to build and manage a profitable portfolio of assets that will combine operated and non-operated positions in large basins in mature markets such as US West Texas and UK North Sea and in emerging markets like Azerbaijan and the greater Caspian region. The strategic objective is to bridge these two types of markets with technology, partnerships and good governance.

The strategic focus is on large, proven hydrocarbon basins where sophisticated technical planning and strong operational execution can unlock value. The Group is not in the frontier exploration business. Instead, the Group uses its subsurface skills to design and execute appraisal and development programs, including mature field production enhancement projects.

The successful execution of the strategy requires focused technical and operational expertise, strong partnerships and deep experience in the regions where the Group operates.

The Group has three non-operated production businesses in its portfolio and is actively developing additional acquisition opportunities and partnerships. Industry supply chain costs have decreased substantially through the period of low commodity prices over the past several years. The oil demand shock caused by the COVID-19 pandemic and exacerbated by the price war between Saudi Arabia and Russia, pushed the oil prices to unprecedented low levels in 2Q 2020. The oil prices subsequently recovered to around \$40 per barrel, which is still two thirds of the pre-crisis levels. This has led to a reset and reduction in asset values. The apparent long-term shift by the European oil majors away from the oil industry and into renewable energy, will likely create opportunities for the independent upstream players to capture in the short to medium-term. With available shareholder capital and no third-party debt burden, the Group is well positioned to take advantage of the current environment in pursuit of its growth strategy and invest both organically and inorganically with a combination of equity and debt.

Nobel Oil E&P (UK) Limited

Strategic report for the year ended 31 December 2019 (continued)

Business performance

The Group's revenues reached their highest level of \$24.2 million in 2019, growing 2.4 times compared with 2018. This was achieved solely through an increase in production as the oil price realisations remained at the same level of \$68 per barrel. Whilst the Group's 2019 cash operating expenditure increased almost two-fold driven by a larger asset base, on a per boe basis it was 24% lower than in 2018. The cash overheads were 4% higher in absolute terms but 58% lower on a per boe basis. In 2019, the Group generated \$12.8 million of net operating cash flow before changes in working capital. The Group's net income for 2019 was \$32.5 million, mostly driven by the gain from the valuation of the put option relating to the investment in Azerbaijan. The Group invested \$13.8 million in capital expenditure in the US and the UK in 2019. The investments were part funded by \$2.0 million of a new related party loan and the remaining \$11.8 million from the Group's accumulated cash resources. As a result of the significant increase in production, the Group's 2P reserves reduced by 3%.

Key highlights of the business performance by geography include the following:

Azerbaijan

The Group continued to work with SOCAR (State Oil Company of the Republic of Azerbaijan) on optimising the field development plans for the giant multi-TCF Umid-Babek gas and condensate field and attracting an international oil company as an operating partner within the framework of the Umid-Babek Risk Service Agreement.

USA

The Group continued to produce oil and natural gas from its existing wells in the Permian Basin, including two new wells that came onstream in 4Q 2018. Production performance was exceptional at 33% above budget. Revenues from the Permian assets reached their highest level at \$15.2 million in 2019. A development plan for a new nine-well polygon was designed and agreed with the Operator. The first of these wells was drilled in 4Q 2019 and came onstream in January 2020. Further infill acreage acquisitions were made in the existing acreage position of circa 15,000 gross acres.

UK

Production from the Maclure oil field outperformed the budget forecast by 11% in 2019. The first well in the Ballindalloch oil field tied back to the Gryphon FPSO came onstream in July 2019, peaking at over 5,000 barrels of oil per day gross. The Group's revenues from the North Sea business also achieved a new record at over \$9.1 million. The Group continued to pursue a number of inorganic business development options with a focus on growing and diversifying its North Sea portfolio.

Future developments

Given the twin challenges that arose in the first half of 2020 from COVID-19 and the resulting dramatic fall in oil prices, the main focus of the Group's response to these issues is centred on maintaining the health of the workforce, all of whom are non-field office-based, and reducing the risk of spreading the virus, whilst at the same time preserving the operational and financial resilience of the business. The Group was able to implement immediate measures to protect its people, including enabling home working and social distancing when in the office. Furthermore, the Group's operators implemented safeguarding measures for field personnel to ensure continuity of production.

Despite these challenges, the Group expects to achieve progress across its portfolio in 2020. The Group will continue to execute its growth strategy through both organic and inorganic investments. In the near term, the Group will focus on the following activities:

Azerbaijan

The Group, together with SOCAR, continues its discussions with a number of international oil companies to join the Umid-Babek field development as operating partner(s). The anticipated field development programme will include a new offshore installation on the Umid part of the field and drilling the first exploration/appraisal well on the Babek portion of the field. The Group will also seek recovery of outstanding receivables from SOCAR.

Nobel Oil E&P (UK) Limited

Strategic report for the year ended 31 December 2019 (continued)

USA

Following the success of the drilling of the new wells in 2018/19, the Group will continue executing its nine-well development programme in its existing Permian acreage in Texas.

UK

The Group will continue working with its co-venturers and Total as the operator to drill new wells in the Maclure, Ballindalloch and Dunnottar oil fields. The Group will continue to work on new acquisition opportunities in the UKCS.

Key performance indicators

The Group's key performance indicators are as follows:

	2019	2018
Lost Time Incidents	Zero	Zero
2P Reserves (MMboe; *)	8.5	8.7
Contingent Resources (MMboe; **)	90.9	92.1
Production (barrels of oil equivalent per day)	1,061	429
Revenue (\$'000)	24,237	9,993
Realised oil price per barrel (\$)	68	68
Opex per barrel of oil equivalent (\$; ***)	7	9
Cash generated in operations (\$'000)	13,042	485
Cash capex (\$'000)	(13,804)	(14,250)
Total comprehensive income (\$'000)	32,502	40,032

* reserves are quoted on a net revenue interest basis;

** contingent resources relate to technically recoverable hydrocarbons for which commerciality has yet to be determined and are recorded on net working interest basis;

*** opex represents costs of production and transportation operations and other lease operating expenses.

Principal risks and uncertainties

The Group is generally exposed to the risks inherent in the global oil and gas markets of pricing and regulation. In addition, the Group invested in, or is considering investment in, areas exposed to political risk. The Group's key principal risks could prevent the business from executing its strategy and creating shareholder value.

Significant risks during 2019 were:

- Oil price shocks;
- Production downtime in the Maclure, Ballindalloch and Permian fields;
- Lack of co-venturer support to drill an infill well or other satellite wells in the Maclure area;
- Cost overruns and schedule delays on the Ballindalloch development;
- Drilling cost overruns and ineffective completions on the Permian wells, and lack of partner funding;
- Inability to or delay in attracting an international oil company into the Umid-Babek RSA;
- SOCAR undertaking activities in the Umid-Babek block without the Group's approval;
- SOCAR breaching agreements and delaying payment of monies due; and
- Inability to progress business development opportunities.

Significant risks in 2020 are:

- Oil price shocks;
- Production downtime in the Maclure, Ballindalloch and Permian fields;
- Inability to execute the current phase of development in the Permian asset;
- Lack of co-venturer support to progress development of the Maclure, Ballindalloch and Dunnottar fields;
- Inability to or delay in attracting an international oil company into Umid-Babek RSA;

Nobel Oil E&P (UK) Limited

Strategic report for the year ended 31 December 2019 (continued)

- SOCAR undertaking activities in the Umid-Babek block without the Group's approval;
- SOCAR breaching agreements and delaying payment of monies due; and
- Inability to progress business development opportunities and secure third-party debt in support of the growth agenda.

The principal risks and their management are described in the table below.

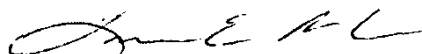
Risk description	Risk management
Health, Safety and Environment	
<p>The Group's operations are subject to general and specific regulations and restrictions governing workplace health and safety requirements, environmental requirements, social impacts, and other laws and regulations.</p> <p>An HSE incident may lead to an adverse effect on the Group's business, reputation, financial condition and prospects.</p>	<p>One of the core values reflected in the Group's Code of Conduct is Safety. The Code clearly states that HSE principles which are further detailed in the Safety and Operational Integrity Commitment apply to all personnel.</p> <p>The Board of Directors exercises oversight and monitors the HSE risk management within the Group. The Group CEO has overall accountability for compliance with HSE requirements. The HSE commitment is implemented across all Group locations through a set of policies and procedures.</p> <p>The Group's production assets are held through non-operated positions with clear contractual arrangements in place with the operators.</p>
Production and reserves replacement	
<p>The Group's production is critical to its success and is subject to a variety of risks driven by subsurface uncertainties and operational infrastructure. Lower than expected reservoir or operating performance may have a material impact on the Group's results.</p> <p>Estimates of commercial reserves and contingent resources can change with time. Changes in estimates may impact field production volumes, capital expenditure, operating costs and the life of fields, all of which contribute to the valuation of the relevant asset.</p> <p>Low oil prices can potentially affect reserve certifications as well as development of contingent and prospective resources.</p>	<p>The Group does not have direct control over oil and gas operations and can only exercise influence over the operators through existing contractual arrangements and relationships.</p> <p>The Group undertakes regular internal reviews. The Group's forecasts of production are risked reflecting relevant production risks.</p> <p>The Group puts a strong emphasis on subsurface analysis and utilises the expertise of industry-leading professionals. Management selects assets that are robust in a low oil price environment.</p> <p>All analyses are subject to internal and, where appropriate, external review.</p>
Joint Venture ("JV") partners	
<p>The Group's existing assets are operated by others. Dependence on the operators and/or failure by joint venture parties to fund their obligations may adversely impact the Group's business performance, value and reputation.</p>	<p>The Group monitors operator performance and exercises its contractual rights through JV agreements to influence JV strategies, policies and performance.</p> <p>The Group undertakes a careful assessment of potential operators in evaluation of new acquisition opportunities to ensure alignment in strategic approach, company values and standards of conduct.</p>

Nobel Oil E&P (UK) Limited

Strategic report for the year ended 31 December 2019 (continued)

Financial	
<p>Inability to fund financial commitments and ongoing operations.</p> <p>The Group is reliant on cash flows from operations and on funding from its sole shareholder, who has provided continued financial support.</p> <p>The Group has no external debt.</p> <p>Exposure to local currency on costs in the UK and Azerbaijan denominated in GBP and AZN respectively due to their significant weakness against USD.</p>	<p>The Group has maintained a healthy cash balance and is generating sufficient cash flow from production and through cost savings to fund its operating cash needs. New investments will be funded from a combination of the Group's cashflow as well as shareholder and third-party sources as appropriate.</p> <p>The Group reviews its cash flow requirements on an ongoing basis to ensure it has adequate resources.</p> <p>The Group is maintaining a focus on costs through cost reduction and rationalisation measures, whilst benefiting from the oil sales denominated in USD and costs denominated in GBP and AZN.</p>
Oil price	
<p>A material decline in oil and gas prices adversely affects the Group's financial performance and the value of the existing assets.</p> <p>The oil prices recovered from the 2014/15 slump and remained robust until the latest crash in H1 2020 precipitated by the COVID-19 pandemic and exacerbated by the Saudi-Russia price war. The potential impact and likelihood of the oil price risk remain as high as ever due to volatility in the oil markets and susceptibility of the global economic growth to the lasting impacts of the COVID-19 pandemic, emerging protectionism, trade wars between US and China, UK's exit from the EU and shifts in public perception of and policy towards the impact of the oil industry on the climate change.</p>	<p>This risk can be mitigated by a number of measures including hedging production, renegotiating supplier contracts and reducing costs and commitments.</p> <p>The Group monitors oil price sensitivity relative to its capital commitments and seeks assets that continue to cover cash costs in a low oil price environment. In addition, the Group regularly reviews and implements suitable policies to hedge against the possible negative funding impacts of changes in oil prices.</p>

This report was signed on behalf of the Board on 7 December 2020 by:



Lawrence Bates

Chief Executive Officer

Nobel Oil E&P (UK) Limited

Directors' report for the year ended 31 December 2019 (continued)

The Directors present their report for the year ended 31 December 2019.

Dividend

No dividend is proposed in respect of the year ended 31 December 2019 (2018: nil).

Branches outside the UK

During the year and prior year, the Group held a representative office in Azerbaijan.

Future developments

Future development activities of the Group are provided in the strategic report on pages 3-4.

Political and charitable contributions

During the year the Group made no political or charitable contributions (2018: Nil).

Qualifying third-party indemnity provision

No qualifying third-party indemnity provisions were in place during the financial year and at the date of this report (2018: Nil).

Post balance sheet events

Further details of events after the balance sheet are available in note 25.

Going concern

The Group is operating on a going concern basis funded by its operating cash flows. Any additional investments will be funded by a combination of the Group's excess cash flow, third-party debt and shareholder capital. The Group's related party obligations will be supported by the shareholder. As such, the Directors have a reasonable expectation that the Group has adequate resources to continue in existence for the foreseeable future. Further information relating to the use of the going concern assumption is provided in note 2 of the financial statements.

Directors

The directors who held office during the year and up to the date of signing these financial statements, unless otherwise indicated, are:

Lawrence E Bates
Matthew J Bryza
Francis S Sommer
Yusif Jabbarov

Nobel Oil E&P (UK) Limited

Strategic report for the year ended 31 December 2019 (continued)

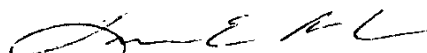
Statement of disclosure of information to auditor

So far, as the directors are aware, there is no relevant audit information of which the Group's auditor is unaware, and each director has taken all the steps that he or she ought to have taken as a director in order to make himself or herself aware of any relevant audit information and to establish that the Group's auditor is aware of that information.

Independent auditor

Ernst & Young LLP were appointed as auditor of the Company on 12 November 2014 and will continue in office in accordance with Section 487(2) of the Companies Act 2006.

This report was signed on behalf of the Board on 7 December 2020 by:



Lawrence Bates

Chief Executive Officer

Nobel Oil E&P (UK) Limited

Statement of directors' responsibilities

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

Company law requires the directors to prepare the financial statements for each financial period. Under that law the directors have prepared the Group and parent company 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 Group and the Company and of the profit or loss of the Group 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 accounting estimates that are reasonable and prudent;
- state whether applicable International Financial Reporting Standards (IFRS) 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 accurate accounting records that are sufficient to show and explain the Group's and Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and 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 Group and the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF NOBEL OIL E&P (UK) LIMITED

Opinion

We have audited the financial statements of Nobel Oil E&P (UK) Limited ('the parent company') and its subsidiaries (the 'group') for the year ended 31 December 2019 which comprise the Consolidated Statement of Profit or Loss and Other Comprehensive Income, the Consolidated and Company Statement of Financial Position, the Consolidated and Company Statement of Changes in Equity, the Consolidated and Company Statement of Cash Flows and the related notes 1 to 26, 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 and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

In our opinion:

- the financial statements give a true and fair view of the group's and of the parent company's affairs as at 31 December 2019 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union in accordance with the provisions of the Companies Act 2006; and
- the financial statements 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 below. We are independent of the group and parent 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.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

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

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF NOBEL OIL E&P (UK) LIMITED (continued)

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this 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 the 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 strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and directors' report have 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 group and the parent company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or 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 parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company 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 9, 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 group's and the parent 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 group or the parent company or to cease operations, or have no realistic alternative but to do so.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF NOBEL OIL E&P (UK) LIMITED (continued)

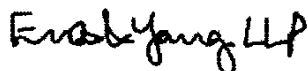
Auditor's responsibilities for the audit of the financial statements

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.



Gary Donald (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London
10 December 2020

Nobel Oil E&P (UK) Limited

Consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2019

		2019 \$'000	2018 \$'000
Revenue	5	24,237	9,993
Cost of sales	6	(15,356)	(7,654)
Gross profit		8,881	2,339
Administrative expenses	6	(5,492)	(4,622)
Operating profit/ (loss)		3,389	(2,283)
Interest income		360	394
Gain on revaluation of the derivative financial asset	14	29,500	40,000
Foreign exchange (loss)		(18)	(125)
Profit before income tax		33,231	37,986
Income tax (charge)/ credit	9	(729)	1,780
Profit for the financial year		32,502	39,766
Attributable to:			
Owner of the parent		32,502	39,766
Cash flow hedges on commodity swaps:			
Reclassification of losses/ (losses) arising during the year	14	-	444
Tax (expense)/ credit relating to components of other comprehensive income	9	-	(178)
Total other comprehensive loss to be classified to profit or loss in current/ (subsequent) period		-	266
Total comprehensive income/ (loss) for the financial year		32,502	40,032
Attributable to:			
Owner of the parent		32,502	40,032

All amounts relate to continuing operations.

The notes on pages 19 to 50 are an integral part of these consolidated financial statements.

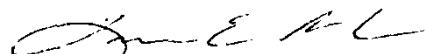
As permitted by Section 408 of the Companies Act 2006, the consolidated statement of profit or loss and other comprehensive income of the parent company is not presented as part of these financial statements. The parent company's result for the financial year was a loss of \$3,822,000 (2018: profit of \$2,491,000).

Consolidated statement of financial position as at 31 December 2019

Assets	Note	2019	2018
		\$'000	\$'000
Non-current assets			
Property, plant and equipment	10	47,638	43,087
Intangible assets	11	14,778	11,867
Goodwill	13	5,146	5,146
Investment in joint venture	12	114,838	114,838
Trade and other receivables	15	609	2,955
Derivative financial instrument	14	420,000	390,500
Deferred tax asset	9	3,380	4,109
		606,389	572,502
Current assets			
Inventories		809	1,317
Trade and other receivables	15	5,319	3,132
Cash and cash equivalents	16	4,932	3,610
		11,060	8,059
Total assets		617,449	580,561
Equity and liabilities			
Equity attributable to the owner of the parent			
Share capital	18	89,420	89,420
Merger reserve	19	20,592	20,592
Retained earnings	20	423,456	390,954
Total equity		533,468	500,966
Liabilities			
Non-current liabilities			
Provisions	21	5,178	4,793
Other long term liabilities	17	114	-
		5,292	4,793
Current liabilities			
Trade and other payables	17	5,533	3,646
Amounts owed to related parties	17	73,156	71,156
		78,689	74,802
Total liabilities		83,981	79,595
Total equity and liabilities		617,449	580,561

The notes on pages 19 to 50 are an integral part of these consolidated financial statements.

The financial statements were authorised for issue on 7 December 2020 and were signed on behalf of the Board by:



Lawrence Bates

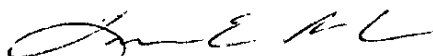
Chief Executive Officer

Company statement of financial position as at 31 December 2019

Assets	Note	2019	2018
Non-current assets		\$'000	\$'000
Investments in subsidiaries	12	103,250	107,077
		103,250	107,077
Current assets			
Cash and cash equivalents	16	26	69
		26	69
Total assets		103,276	107,146
Equity and liabilities			
Equity attributable to the owner of the parent			
Share capital	18	89,420	89,420
Merger reserve	19	20,592	20,592
Retained deficit	20	(13,808)	(9,986)
Total equity		96,204	100,026
Liabilities			
Current liabilities			
Trade and other payables		27	29
Payables to related parties	23	7,045	7,091
Total liabilities		7,072	7,120
Total equity and liabilities		103,276	107,146

The notes on pages 19 to 50 are an integral part of these consolidated financial statements.

The financial statements were authorised for issue on 7 December 2020 and were signed on behalf of the Board by:



Lawrence Bates

Chief Executive Officer

Nobel Oil E&P (UK) Limited

Statement of changes in equity for the year ended 31 December 2019

Group	Note	Equity attributable to the owner of the parent			
		Share capital	Merger reserve	Retained earnings	Total equity
		\$'000	\$'000	\$'000	\$'000
Balance at 1 January 2018		89,420	20,592	350,922	460,934
Profit for the year		-	-	39,766	39,766
Other comprehensive income		-	-	266	266
Balance at 1 January 2019		89,420	20,592	390,954	500,966
Profit for the year	14	-	-	32,502	32,502
Balance at 31 December 2019		89,420	20,592	423,456	533,468

Company	Share capital	Merger reserve	Retained deficit	Total equity
	\$'000	\$'000	\$'000	\$'000
Balance at 1 January 2018	89,420	20,592	(12,477)	97,535
Total comprehensive income for the year	-	-	2,491	2,491
Balance at 1 January 2019	89,420	20,592	(9,986)	100,026
Total comprehensive loss for the year	-	-	(3,822)	(3,822)
Balance at 31 December 2019	89,420	20,592	(13,808)	96,204

The notes on pages 19 to 50 are an integral part of these consolidated financial statements.

Nobel Oil E&P (UK) Limited

Consolidated statement of cash flows for the year ended 31 December 2019

		2019 \$'000	2018 \$'000
Cash flows from operating activities:	Note		
Profit before income tax		33,231	37,986
Adjustments to reconcile profit before tax to net cash flows:			
Depreciation	10	8,458	4,857
Amortisation	11	936	233
Accretion	21	65	61
Net gain on derivative instrument at fair value through profit or loss	14	(29,500)	(40,000)
Interest income		(360)	(394)
Loss on sale of property, plant and equipment		-	4
Change in working capital:			
(Increase) in trade and other receivables		(74)	(1,771)
(Decrease)/ increase in trade and other payables		(183)	187
Decrease/ (increase) in inventory		508	(1,123)
Impact of cashflow hedge on commodity swap recognised in operating activities		-	444
Exchange (gains)/ losses from operating activities		(38)	1
Net cash generated from operating activities		13,043	485
Cash used in investing activities:			
Purchases of property, plant and equipment	10	(8,291)	(12,792)
Payments for intangible assets	11	(5,513)	(1,458)
Proceeds from sale of property, plant and equipment	10	-	8
Net cash used in investing activities		(13,804)	(14,242)
Cash flows from financing activities:			
Interest income		92	88
Loan received from related party		2,000	8,000
Loan repaid to related party		-	(200)
Net cash generated from financing activities		2,092	7,888
Net increase/ (decrease) in cash and cash equivalents		1,331	(5,869)
Cash and cash equivalents at 1 January		3,610	9,479
Exchange losses on cash and cash equivalents		(9)	-
Cash and cash equivalents at 31 December		4,932	3,610

The notes on pages 19 to 50 are an integral part of these consolidated financial statements.

Nobel Oil E&P (UK) Limited

Company statement of cash flows for the year ended 31 December 2019

	Note	2019 \$'000	2018 \$'000
Cash flows from operating activities:			
Profit/ (loss) before income tax		(3,822)	2,491
Change in working capital:			
(Decrease)/ increase in trade and other payables		(1)	29
Adjustments for non-cash items:			
Impairment charge	12	6,847	-
Impairment reversal	12	(3,020)	(2,508)
Net cash generated in operating activities		4	12
Cash used in investing activities:			
Payments to acquire equity in subsidiary undertakings	12	-	(18,724)
Loan repayments from subsidiary undertakings	23	-	11,690
Net cash used in investing activities		-	(7,034)
Cash flows from financing activities:			
Amounts received from subsidiary undertakings	23	374	7,091
Amounts paid to subsidiary undertakings	23	(421)	-
Net cash (used)/ generated from financing activities		(47)	7,091
Net (decrease)/ increase in cash and cash equivalents		(43)	69
Cash and cash equivalents at 1 January		69	-
Cash and cash equivalents at 31 December		26	69

The notes on pages 19 to 50 are an integral part of these consolidated financial statements.

Nobel Oil E&P (UK) Limited

Notes to the financial statements for the year ended 31 December 2019

1. General information

The general information of the Company and of its Group are provided in the strategic report on page 2.

The Company is a limited company, which acts as a holding company of the Group and is incorporated and domiciled in the United Kingdom. The address of its registered office is 48 Dover Street, London, England, W1S 4FF, United Kingdom.

2. Accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied during the period presented, unless otherwise stated.

Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) and IFRS Interpretations Committee (IFRS IC) as adopted by the European Union (IFRSs as adopted by the EU) and the Companies Act 2006. The consolidated financial statements are prepared on the historical cost basis except for derivative financial instruments that have been measured at fair value.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates and assumptions. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 3.

The financial statements are presented in US dollars, and all values are rounded to the nearest thousand (\$'000), except where otherwise indicated.

Further details of the impact of COVID-19 on the Group and on the directors' assessment of going concern are included in the strategic report and in Note 25 relating to events after the balance sheet date.

Going concern

The financial statements have been prepared on the going concern basis. The Group will meet its ongoing obligations at least over the next 12 months from its available cash balance and cash flows generated from operations. Any additional investments (as approved by the Board and the shareholder) will be funded by a combination of the Group's excess cashflow, third-party debt and the shareholder capital. The Group's related party obligations and any potential cash flow shortfall will be supported by the shareholder. As such, the Directors have a reasonable expectation that the Group has adequate resources to continue in existence for the foreseeable future.

The Group monitors its capital position and its liquidity risk regularly throughout the year to ensure that it has sufficient funds to meet forecast cash requirements. Sensitivities are run to reflect latest expectations of expenditures, forecast oil and gas prices and other negative economic scenarios in order to manage the risk of funds shortfalls to ensure the Group's ability to continue as a going concern.

After the year end, the spread of COVID-19 and measures introduced by governments across the world to manage the pandemic led to an unprecedented drop in global demand for oil. In addition, a disagreement within OPEC+ on or about 7 March 2020 triggered an oil price war that caused the largest one-day fall in the oil price since 1991.

The Group has prepared forecast cash flows for the 12 months to 30 November 2021 using an average oil price assumption of \$41 for the rest of 2020 and \$47 for 2021. The Base case has been sensitised under a plausible downside case ('Downside case'). Using these assumptions, under both the Base case and Downside case the Group has sufficient liquidity from new funding, its available cash balance and cash flows generated from operations during the 12-month period from the date of the approval of the accounts. The Group has secured a five-year \$25 million loan from a US bank to fund its US investments with the following amortisation schedule: 15% in 2023, 15% in 2024 and 70% in 2025. Also, the ultimate beneficial owner, has confirmed that the related parties, who have provided loans of \$71,156,000 (see note 23), which are repayable on demand, will not seek repayment of these amounts until at least 31 December 2021.

Any additional investments (as approved by the Board and the shareholder) will be funded by a combination of the Group's excess cashflow, third-party debt and the shareholder capital. The Group's related party obligations and any potential cash flow shortfall will be supported by the shareholder. As such, the Directors have a

Nobel Oil E&P (UK) Limited

Notes to the financial statements for the year ended 31 December 2019 (continued)

reasonable expectation that the Group has adequate resources to continue in existence for the foreseeable future.

Whilst there remains uncertainty on the impact of volatile commodity prices and COVID-19, and the length of time for which these conditions will continue, the Directors have concluded it is appropriate for the financial statements to be prepared on a going concern basis.

Adoption of new and revised standards

In the current year the following new and revised Standards and Interpretations have been adopted; other than as disclosed below, none of these have a material impact on the Group's annual results.

- Amendments to IFRS 10 and IAS 28 – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture
- IFRS 16 Leases
- Amendments to IFRS 4 – Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts
- IFRIC 23 *Uncertainty over Income Tax Treatments*
- Amendments to IAS 28 – Long-term Interests in Associates and Joint Ventures
- AIP (2015-2017 Cycle): IFRS 3 Business Combinations – Previously held interests in a joint operation
- AIP (2015-2017 Cycle): IFRS 11 Joint Arrangements – Previously held interests in a joint operation
- AIP (2015-2017 Cycle): IAS 12 Income Taxes – Income tax consequences of payments on financial instruments classified as equity
- AIP (2015-2017 Cycle): IAS 23 Borrowing Costs – Borrowing costs eligible for capitalisation
- Amendments to IAS 19 – Plan Amendment, Curtailment or Settlement

IFRS 16 Leases

The Group adopted IFRS 16 Leases ('IFRS 16') with effect from 1 January 2019. IFRS 16 was issued in January 2016 to replace IAS 17 Leases. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases, with limited exceptions, under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. Under IFRS 16, at the commencement date of a lease, a lessee is required to recognise a liability to make lease payments ('lease liability') and an asset representing the right to use the underlying asset during the lease term ('right-of-use asset'). Lease liabilities are measured at the present value of future lease payments over the reasonably certain lease term. Variable lease payments that do not depend on an index or a rate are not included in the lease liability. Such payments are expensed as incurred throughout the lease term.

In applying IFRS 16 for the first time the Group has applied the short-term lease practical expedient by not recognising lease liabilities in respect of lease arrangements with a remaining lease term of less than 12 months as at 1 January 2019. The Group adopted the modified retrospective approach to adoption on 1 January 2019, measuring right-of-use assets at an amount based on their respective lease liability on adoption, with the cumulative effect of adopting the standard recognised at the date of initial application without restatement of comparative information.

Lessees are required to separately recognise the interest expense associated with the unwinding of the lease liability and the depreciation expense on the right-of-use asset. These costs replace amounts previously recognised as operating expenditure in respect of operating leases in accordance with IAS 17. Principal payments related to leases are now presented as financing cash flows in the cash flow statement. The replacement of operating lease expenditure with the recognition of interest expense and depreciation in respect of lease liabilities and right-of-use assets, respectively, will result in an increase in Group earnings before interest, tax, depreciation, amortisation and exploration.

There was no difference between the operating lease commitments as of 31 December 2018 to the total lease liability recognised on adoption of IFRS 16. As of 31 December 2018, there were no lease commitments with a remaining lease term of more than 12 months and thus the Group applied the short-term lease practical expedient

At the date of approval of these financial statements, the following standards and interpretations relevant to the Group which have not been applied in these financial statements were in issue but not yet effective (and in some cases had not yet been adopted by the European Union):

Nobel Oil E&P (UK) Limited

Notes to the financial statements for the year ended 31 December 2019 (continued)

- Amendments to References to the Conceptual Framework in IFRS Standards
- Amendments to IAS 1 and IAS 8 – Definition of Material
- Amendments to IFRS 3 – Definition of a Business
- IFRS 17 Insurance Contracts

The Directors do not expect that the adoption of the other standards listed above will have a material effect on the financial statements of the Group in future periods.

Basis of consolidation

These financial statements comprise a consolidation of the accounts of the Company and its subsidiary undertakings and incorporates the results of its joint ventures using the equity method of accounting.

Subsidiaries

Subsidiaries are all entities (including restructured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

Inter-company transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated. When necessary, amounts reported by subsidiaries have been adjusted to conform to the Group's accounting policies.

Joint arrangements

A joint arrangement is an arrangement where two or more parties have joint control.

Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities (being those that significantly affect the returns of the arrangement) require unanimous consent of the parties sharing control.

Joint ventures

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint arrangement. The Group's investment in its joint venture is accounted for using the equity method. Under the equity method, the investment in the joint venture is initially recognised at cost. The carrying amount of the investment is adjusted to recognise changes in the Group's share of net assets of the joint venture since the acquisition date.

The results, assets and liabilities of a joint venture are incorporated in these financial statements using the equity method of accounting. Under the equity method, on initial recognition the investment in a joint venture is recognised at cost and adjusted thereafter to recognise the Group's share of post- acquisition profits or losses and movements in other comprehensive income.

Financial statements of joint ventures are prepared for the same reporting period as the Company. Where necessary, adjustments are made to those financial statements to bring the accounting policies used in line with those of the Group.

The Group holds a 20% interest in Umid, Babek Exploration and Production ("UBEP") company registered in the Cayman Islands. UBEP is the sole contractor under the Risk Service Agreement and the related contract on conduct of petroleum operations in the offshore block including the Umid-Babek field in the Azerbaijan sector of the Caspian Sea (the "RSA"). The RSA was ratified by the parliament of the Republic of Azerbaijan in May 2017. The Group has joint control over UBEP together with SOCAR as the owner of the remaining 80% shares in UBEP pursuant to contractual arrangements, including a shareholders agreement with a broad list of reserved matters requiring unanimity.

Joint operations

A joint operation is a joint arrangement that gives parties to the arrangement direct rights to the assets and obligations for the liabilities. A joint operator will recognise its interest based on its involvement in the joint operation, based on its direct rights and obligations.

Nobel Oil E&P (UK) Limited

Notes to the financial statements for the year ended 31 December 2019 (continued)

The Group therefore recognises and consolidates its share of all assets and liabilities on a line by line basis within the statement of financial position and its share of the revenue and expenditure on a line by line basis, within the Group's consolidated statement of profit or loss and other comprehensive income.

The Group holds a 7.59% joint operations interest in the Maclure oil and gas field and a 8.2% joint operations interest in the Ballindalloch oil and gas field in the North Sea. The Group also holds interests between 71.25% and 84.36% in the Mapache and Thunder Valley acreage positions and wells in West Texas. These are all separate joint arrangements which are not incorporated entities.

Business combinations and goodwill

Acquisitions of subsidiaries and businesses are accounted for using the acquisition method. The consideration for each acquisition is measured at the aggregate of the fair values (at the date of exchange) of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree. Acquisition-related costs are recognised in profit or loss as incurred. Where applicable, the consideration for the acquisition includes any asset or liability resulting from a contingent consideration arrangement, measured at its acquisition-date fair value. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 are recognised at their fair value at the acquisition date.

Goodwill arising in a business combination is recognised as an asset at the date that control is acquired (the acquisition date). Goodwill is measured at cost as the excess of the sum of the consideration transferred over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. Any negative goodwill (bargain purchase) is recognised immediately in the statement of profit or loss and other comprehensive income as an excess of fair value over cost. Deferred tax is recognised in a business combination but in an asset acquisition no deferred tax will arise in relation to acquired assets and assumed liabilities as the initial recognition exception for deferred tax under IAS12 applies.

Goodwill is tested for impairment annually as at 31 December and when circumstances indicate that the carrying value may be impaired. Impairment is determined for goodwill by assessing the recoverable amount of each CGU (or group of CGUs) to which the goodwill relates. When the recoverable amount of the CGU is less than its carrying amount, an impairment loss is recognised. Impairment losses relating to goodwill cannot be reversed in future periods.

The business cash flow internal model, which is approved on an annual basis by senior management, is the primary source of information for the determination of value in use. It contains forecasts for oil and gas production, sales volumes for various types of products, revenues, costs and capital expenditure. As an initial step in the preparation of this model, various assumptions are set by senior management. These assumptions take account of commodity prices, global supply-demand equilibrium for oil and natural gas, other macroeconomic factors and historical trends and variability. In assessing value in use, the estimated future cash flows are adjusted for the risks specific to the asset group and are discounted to their present value using a pre-tax rate.

Foreign currency translation

Functional and presentational currency

The consolidated financial statements are presented in US dollars (\$) which is the currency of the primary economic environment in which the Group operates (the "functional currency") and the presentational currency of the Group. All group companies' financial statements are presented in US dollars.

The exchange rates used are:

	2019 average rate	2019 closing rate	2018 average rate	2018 closing rate
Azerbaijani Manat	1.699	1.696	1.698	1.697
UK Pound Sterling	0.782	0.754	0.753	0.785

Nobel Oil E&P (UK) Limited

Notes to the financial statements for the year ended 31 December 2019 (continued)

Transactions and balances

Transactions in foreign currencies are initially converted to US dollars at the rate ruling at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are translated into US dollars at rates of exchange prevailing at the reporting date. All differences on exchange are taken to the consolidated statement of profit or loss and other comprehensive income.

The assets and liabilities of foreign operations are translated to US dollars at foreign exchange rates prevailing at the reporting date. The income and expenses of foreign operations are translated into US dollars at rates approximating the foreign exchange rates ruling at the date of transactions.

Group retirement benefits

Payments to defined contribution retirement benefit plans are charged as an expense as they fall due. Payments made to state-managed retirement benefit schemes are dealt with as payments to defined contribution plans where the Group's obligations under the schemes are equivalent to those arising in a defined contribution retirement benefit plan.

Revenue recognition

Crude oil, natural gas and natural gas liquids

Revenue from contracts with customers is recognised when or as the Group satisfies a performance obligation by transferring a promised good to a customer. A good is transferred when the customer obtains control of that good. The transfer of control of oil, natural gas and natural gas liquids by the Group usually coincides with title passing to the customer and the customer taking physical possession. The Group satisfies its performance obligations at a point in time and has no performance obligations that are satisfied over time. Depending on the Group's joint operation arrangements, revenue is recognised either according to the actual liftings or the actual production. Where liftings do not match working interest or entitlement interest, an adjustment is made to cost of sales representing the amount due to/from joint venture partners representing over / underlift movements.

Interest income

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable.

Segmental reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, is responsible for allocating resources, assessing performance of the operating segments, and making strategic decisions. The operating segments align with the geographical segments in note 5.

Cost of sales

Cost of sales comprises of royalties, direct production taxes, operating expenses and depletion and depreciation of oil and gas assets. Royalties are charged as production costs to the income statement in the year in which the related production is recognised as income.

Inventories

Inventories, except for petroleum products, are valued at the lower of cost and net realisable value. Petroleum products and under lifts and over lifts of crude oil are measured at net realisable value and included in inventories and other debtors or creditors respectively.

Fixtures, fittings and computer equipment

All fixtures, fittings and computer equipment are recognised at cost and stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Nobel Oil E&P (UK) Limited

Notes to the financial statements for the year ended 31 December 2019 (continued)

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised.

All other repairs and maintenance are charged to the statement of profit or loss and other comprehensive income during the financial year in which they are incurred.

Depreciation is calculated using the straight-line method to allocate cost to residual values over estimated useful lives, as follows:

Fixtures, fittings and computer equipment – 3 to 5 years

The assets residual values and useful lives are reviewed and adjusted if appropriate at the end of each reporting year. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Oil and gas exploration assets

Oil and natural gas exploration and evaluation expenditures are accounted for using the 'successful efforts' method of accounting.

Licence and property acquisition costs

Costs of acquiring unproved and proved oil and gas leasehold acreage, including lease bonuses, brokers' fees and other related costs, are capitalised. These costs are amortised using the unit of production method.

Exploration and evaluation costs

Annual lease rentals and exploration expenses, including geological and geophysical expenses and exploratory dry hole costs, are charged against income as incurred.

The costs of exploratory wells that find oil and gas reserves are capitalised pending determination of whether proved reserves have been found. In an area requiring a major capital expenditure before production can begin, an exploration well is carried as an asset if sufficient reserves are discovered to justify its completion as a production well, and sufficient progress is being made in assessing the reserves and the economic and operating viability of the project. If either of those criteria are not met, or there is substantial doubt about the economic or operational viability of the project, the capitalised well costs are impaired.

When proved, reserves of oil and natural gas are determined and development is approved by management, the relevant expenditure is transferred to property, plant and equipment.

Drilling, well equipment and development costs

Expenditure on the construction, installation or completion of infrastructure facilities such as platforms, pipelines and the drilling of development wells, including unsuccessful development or delineation wells, is capitalised within property plant and equipment.

Depreciation, depletion and amortisation

For North Sea assets, depreciation, depletion and amortisation for oil and gas production equipment, properties and wells is calculated on the unit of production method over proved and probable developed oil and gas reserves.

For North America assets, in 2018, depreciation, depletion and amortisation for oil and gas production equipment, properties and wells was calculated on the unit of production method over proved developed oil and gas reserves, but given the success of the drilling programme in North America, this was changed to being over proved and probable developed oil and gas reserves from 1 January 2019.

Impairment - exploration and evaluation assets

Exploration and evaluation assets are tested for impairment when reclassified to development tangible or intangible assets, or whenever facts and circumstances indicate impairment.

An impairment loss is recognised for the amount by which the exploration and evaluation assets' carrying amount exceeds their recoverable amount. The recoverable amount is the higher of the exploration and evaluation assets' fair value less costs to sell and their value in use.

Nobel Oil E&P (UK) Limited

Notes to the financial statements for the year ended 31 December 2019 (continued)

Impairment - oil and gas properties and intangible assets

Oil and gas properties and intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows from cash generating units.

At each reporting date the Group assesses whether there is any indication that a previously recognised impairment loss no longer exists or has decreased. If there is any such indication, the Group estimates the recoverable amount. This applies both to individual assets other than goodwill and to cash-generating units.

Financial instruments

Financial assets and financial liabilities are recognised in the Group's balance sheet when the Group becomes a party to the contractual provisions of the instrument.

Financial assets

The Group's financial assets comprise trade and other receivables, cash and cash equivalents and a derivative financial asset. Management determines the classification of its financial assets at initial recognition.

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income (OCI), and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient, the Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under IFRS 15.

In order for a financial asset to be classified and measured at amortised cost or fair value through OCI, it needs to give rise to cash flows that are 'solely payments of principal and interest ("SPPI")' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognised on the trade date, i.e., the date that the Group commits to purchase or sell the asset.

Subsequent measurement

For purposes of subsequent measurement, financial assets are classified in four categories:

- Financial assets at amortised cost (debt instruments)
- Financial assets at fair value through OCI with recycling of cumulative gains and losses (debt instruments)
- Financial assets designated at fair value through OCI with no recycling of cumulative gains and losses upon derecognition (equity instruments)
- Financial assets at fair value through profit or loss

Financial assets at amortised cost (debt instruments)

The Group measures financial assets at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows and

Nobel Oil E&P (UK) Limited

Notes to the financial statements for the year ended 31 December 2019 (continued)

- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding

Financial assets at amortised cost are subsequently measured using the effective interest (EIR) method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

The Group's financial assets at amortised cost includes trade receivables, a loan to a third party and a loan to key management.

Financial assets at fair value through OCI (debt instruments)

The Group measures debt instruments at fair value through OCI if both of the following conditions are met:

- The financial asset is held within a business model with the objective of both holding to collect contractual cash flows and selling and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding

For debt instruments at fair value through OCI, interest income, foreign exchange revaluation and impairment losses or reversals are recognised in the statement of profit or loss and computed in the same manner as for financial assets measured at amortised cost. The remaining fair value changes are recognised in OCI. Upon derecognition, the cumulative fair value change recognised in OCI is recycled to profit or loss.

The Group currently has no debt instruments at fair value through OCI.

Financial assets designated at fair value through OCI (equity instruments)

Upon initial recognition, the Group can elect to classify irrevocably its equity investments as equity instruments designated at fair value through OCI when they meet the definition of equity under IAS 32 Financial Instruments: Presentation and are not held for trading. The classification is determined on an instrument-by-instrument basis.

Gains and losses on these financial assets are never recycled to profit or loss. Dividends are recognised as other income in the statement of profit or loss when the right of payment has been established, except when the Group benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded in OCI. Equity instruments designated at fair value through OCI are not subject to impairment assessment.

The Group currently has no equity instruments at fair value through OCI.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at fair value through profit or loss, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortised cost or at fair value through OCI, as described above, debt instruments may be designated at fair value through profit or loss on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in the statement of profit or loss.

This category includes the Group's derivative financial asset.

Impairment

IFRS 9 mandates the use of an expected credit loss model to calculate impairment losses rather than an incurred loss model, and therefore it is not necessary for a credit event to have occurred before credit losses are recognised. The new impairment model applies to the Group's financial assets and loan commitments. No changes to the impairment provisions were made on transition to IFRS 9.

Nobel Oil E&P (UK) Limited

Notes to the financial statements for the year ended 31 December 2019 (continued)

Trade receivables are generally settled on a short time frame and the Group's other financial assets are due from counterparties without material credit risk concerns at the time of transition. For trade receivables the Group has used the simplified approach as allowed under IFRS 9 therefore, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date

Financial liabilities

The Group has two classifications of financial liabilities in the statement of financial position: trade and other payables; and derivative financial liabilities.

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

Subsequent measurement

The measurement of financial liabilities depends on their classification, as described below:

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. This category also includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by IFRS 9. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments.

Gains or losses on liabilities held for trading are recognised in the statement of profit or loss.

Financial liabilities designated upon initial recognition at fair value through profit or loss are designated at the initial date of recognition, and only if the criteria in IFRS 9 are satisfied.

Loans and borrowings

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest rate ("EIR") method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the EIR amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included as finance costs in the statement of profit or loss. This category generally applies to interest-bearing loans and borrowings.

Derecognition

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the statement of profit or loss.

Trade and other payables

Trade and other payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities.

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Notes to the financial statements for the year ended 31 December 2019 (continued)

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method. Amortised cost is calculated by taking into account any issue costs.

Other payables are included in current liabilities, except where maturity is expected to be after one year from the period end. These are classified as non-current liabilities.

Hedge accounting

The Group uses derivative financial instruments (derivatives) to manage its exposure to changes in oil price fluctuations. In the year ended 31 December 2017, the Group entered into a zero-cost collar to hedge against the movements in the price of oil in the North Sea. This zero-cost collar expired by 31 December 2018.

Derivatives are carried at fair value. Apart from those derivatives designated as qualifying cash flow hedging instruments, all changes in fair value are recorded as financial income or expense in the year in which they arise.

For the purposes of hedge accounting, hedging relationships may be of three types: fair value hedges are hedges of particular risks that may change the fair value of a recognised asset or liability; cash flow hedges are hedges of particular risks that may change the amount or timing of future cash flows; and hedges of net investment in a foreign entity are hedges of particular risks that may change the carrying value of the net assets of a foreign entity. Currently the Group only has cash flow hedge relationships.

To qualify for hedge accounting the hedging relationship must meet several strict conditions on documentation, probability of occurrence, hedge effectiveness and reliability of measurement. If these conditions are not met, then the relationship does not qualify for hedge accounting. In this case the hedging instrument and the hedged item are reported independently as if there were no hedging relationship. In particular, any derivatives are reported at fair value, with changes in fair value included in financial income or expense.

For qualifying cash flow hedges, the hedging instrument is recorded at fair value. The portion of any change in fair value that is an effective hedge is included in equity, and any remaining ineffective portion is reported in financial income. If the hedging relationship is the hedge of a firm commitment or highly probable forecasted transaction, the cumulative changes of fair value of the hedging instrument that have been recorded in equity are included in the initial carrying value of the asset or liability at the time it is recognised. For all other qualifying cash flow hedges, the cumulative changes of fair value of the hedging instrument that have been recorded in equity are included in financial income as and when the forecasted transaction affects net income.

Derivatives embedded in other financial instruments or non-derivative host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of host contracts and the host contracts are not carried at fair value, with unrealised gains or losses reported in the income statement. Embedded derivatives which are closely related to host contracts, including in particular any price caps and floors within the Group's oil sales contracts, are not separated and are not carried at fair value.

Fair value measurement

The Group measures financial instruments such as derivatives, at fair value at each balance sheet date. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability or
- In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible by the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

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Notes to the financial statements for the year ended 31 December 2019 (continued)

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities

Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable

Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements at fair value on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

The Group's key management determines the policies and procedures for recurring fair value measurement such as unquoted financial assets.

Valuations are primarily undertaken internally by management who also decide which valuation techniques and inputs to use for each case. At each reporting date, management analyses the movements in the values of assets and liabilities which are required to be remeasured or re-assessed as per the Group's accounting policies. For this analysis, management verifies the major inputs applied in the latest valuation by agreeing the information in the valuation computation to contracts and other relevant documents. Management also compares the change in the fair value of each asset and liability with relevant external sources to determine whether the change is reasonable.

External industry experts are involved for valuation of significant assets such as unquoted investments and unquoted financial assets as well as significant liabilities such as decommissioning provisions. Involvement of external experts is determined on an ongoing basis as the need arises. Selection criteria include market knowledge, reputation, independence and whether professional standards are maintained. Key management decides, after discussions with the Group's external experts, which valuation techniques and inputs to use for each case.

On an annual basis, key management present the valuation results to the Board of Directors and the Group's independent auditors. This includes a discussion of the major assumptions used in the valuations.

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy. Fair-value related disclosures for financial instruments that are measured at fair value or where fair values are disclosed, are summarised in note 14.

Cash and cash equivalents

Cash comprises cash in hand and demand deposits.

Cash equivalents comprise funds held in term deposit accounts with an original maturity not exceeding three months.

Decommissioning

The Group recognises a decommissioning liability where it has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount of obligation can be made. The obligation generally arises when the asset is installed or the ground/environment is disturbed at the field location. When the liability is initially recognised, the present value of the estimated costs is capitalised by increasing the carrying amount of the related oil and gas assets to the extent that it was incurred by the development/construction of the field. Any decommissioning obligations that arise through the production of inventory are expensed when the inventory item is recognised as cost of goods sold.

Changes in the estimated timing or cost of decommissioning are dealt with prospectively by recording an adjustment to the provision and a corresponding adjustment to oil and gas assets. Any reduction in the decommissioning liability and, therefore, any deduction from the asset to which it relates, may not exceed the

Nobel Oil E&P (UK) Limited

Notes to the financial statements for the year ended 31 December 2019 (continued)

carrying amount of that asset. If it does, any excess over the carrying value is taken immediately to the statement of profit or loss and other comprehensive income.

Taxation

The tax charge for the period comprises current and deferred tax. Tax is recognised in the statement of profit or loss and other comprehensive income, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case the tax is recognised in other comprehensive income or directly in equity, respectively.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the reporting date in the countries where the Group's subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill; deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the reporting date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities, and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

Share capital

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

Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentive received from the lessor) are charged to the statement of profit or loss and other comprehensive income on a straight-line basis over the period of the lease.

3. Critical accounting estimates and assumptions

Estimates and judgements are continually evaluated and are based on management's historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. In the future, actual experience may differ from these estimates and assumptions. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

Deferred tax asset

Deferred tax assets are recognised for unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and the level of future taxable profits, together with future tax planning strategies. For more information see note 9.

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Notes to the financial statements for the year ended 31 December 2019 (continued)

Joint control and joint arrangements

Judgement is required to determine when the Group has joint control over an arrangement, which requires an assessment of the relevant activities and when the decisions in relation to those activities require unanimous consent.

The Group has determined that the relevant activities for its joint arrangements are those relating to the boards involvement in the decision making of its main operating and financing activities, such as obtaining funding, investment decisions and strategic directions.

Judgement is also required to classify a joint arrangement. Classifying the arrangement requires the Group to assess their rights and obligations arising from the arrangement. Specifically, the Group considers the structure of the joint arrangement and whether it is structured through a separate vehicle. When the arrangement is structured through a separate vehicle, the Group also considers the rights and obligations arising from:

- the legal form of the separate vehicle;
- the terms of the contractual arrangement; and
- other facts and circumstances, considered on a case by case basis.

This assessment often requires significant judgement. A different conclusion about both joint control and whether the arrangement is a joint operation or a joint venture, may materially impact the accounting treatment.

Reserves and resources estimates

Hydrocarbon reserves are estimates of the amount of hydrocarbons that can be economically and legally extracted from the Group's oil and gas properties. The Group estimates its commercial reserves and resources based on information compiled by appropriately qualified persons relating to the geological and technical data on the size, depth, shape and grade of the hydrocarbon body and suitable production techniques and recovery rates. Commercial reserves are determined using estimates of oil and gas in place, recovery factors and future commodity prices, the latter having an impact on the total amount of recoverable reserves. Future development costs are estimated using assumptions as to; the number of wells required to produce the commercial reserves, the cost of such wells and associated production facilities, and other capital costs.

The Group estimates and reports hydrocarbon reserves in line with the principles contained in the Society of Petroleum Engineers, Petroleum Resources Management Reporting System (PRMS) framework. As the economic assumptions used may change, and as additional geological information is obtained during the operation of a field, estimates of recoverable reserves may change. Such changes may impact the Group's reported financial position and results, which include:

- the carrying value of exploration and evaluation assets; oil and gas properties; property, plant and equipment may be affected due to changes in estimated future cash flows;
- depreciation and amortisation charges in the statement of profit or loss and other comprehensive income may change where such charges are determined using the Units of Production (UOP) method, or where the useful life of the related assets change;
- provisions for decommissioning may require revision where changes to the reserve estimates affect expectations about when such activities will occur and the associated cost of these activities; and
- the recognition and carrying value of deferred tax assets may change due to changes in the judgements regarding the existence of such assets and in estimates of the likely recovery of such assets.

Units of production (UOP) depreciation of oil and gas assets

Oil and gas properties are depreciated using the UOP method over proved developed oil and gas reserves for the North America assets in 2018, and over proved and probable developed oil and gas reserves for the North America assets in 2019 and for the North Sea assets for 2018 and 2019. This results in a depreciation/ amortisation charge proportional to the depletion of the anticipated remaining production from the field. The life of each item, which is assessed at least annually, has regard to both its physical life limitations and present assessments of economically recoverable reserves of the field at which the asset is located.

These calculations require the use of estimates and assumptions, including the amount of recoverable reserves and estimates of future capital expenditure. The calculation of the UOP rate of depreciation / amortisation will be impacted to the extent that actual production in the future is different from current forecast production based on total proved and probable reserves, or future capital expenditure estimates change. Changes to proved and probable reserves could arise due to changes in the factors or assumptions used in estimating reserves, including

Nobel Oil E&P (UK) Limited

Notes to the financial statements for the year ended 31 December 2019 (continued)

the effect on proved and probable reserves of differences between actual commodity prices and commodity price assumptions.

Decommissioning costs

Decommissioning costs will be incurred by the Group at the end of the operating life of some of the Group's facilities and properties. The Group assesses its decommissioning provision at each reporting date. The ultimate decommissioning costs are uncertain and cost estimates can vary in response to many factors, including; changes to relevant legal requirements, the emergence of new restoration techniques or experience at other production sites. The expected timing, extent and amount of expenditure may also change, for example, in response to changes in reserves or changes in laws and regulations or their interpretation.

Therefore, significant estimates and assumptions are made in determining the provision for decommissioning. As a result, there could be significant adjustments to the provisions established which would affect future financial results.

The provision at the reporting date represents management's best estimate of the present value of the future decommissioning costs required.

Recoverability of oil and gas assets & goodwill

The Group assesses each asset or cash generating unit (CGU) each reporting period to determine whether any indication of impairment exists. Where an indication of impairment exists, a formal estimate of the recoverable amount is made, which is considered to be the higher of the fair value less costs of disposal (FVLCD) and value in use (VIU). The assessments require the use of estimates and assumptions such as long-term oil prices (considering current and historical prices, price trends and related factors), discount rates, operating costs, future capital requirements, decommissioning costs, exploration potential, reserves (hydrocarbon reserves and resource estimates above) and operating performance (which includes production and sales volumes). These estimates and assumptions are subject to risk and uncertainty. Therefore, there is a possibility that changes in circumstances will impact these projections, which may impact the recoverable amount of assets and/or CGUs.

Exploration expenditure

If hydrocarbons are found and, subject to further appraisal activity (e.g., the drilling of additional wells), it is probable that they can be commercially developed, the costs continue to be carried as an asset while sufficient/continued progress is made in assessing the commerciality of the hydrocarbons.

All such carried costs are subject to technical, commercial and management review at least once a year to confirm the continued intent to develop or otherwise extract value from the discovery, which is subject to estimation uncertainties. When this is no longer the case, the costs are written off.

Subsoil use rights acquisition costs are initially capitalised in exploration and evaluation assets. Subsoil use rights acquisition costs are reviewed at each reporting date to confirm that there is no indication that the carrying amount exceeds the recoverable amount. This review includes confirming that exploration drilling is still under way or firmly planned, or that it has been determined, or work is under way to determine that the discovery is economically viable based on a range of technical and commercial considerations and sufficient progress is being made on establishing development plans and timing. If no future activity is planned or the subsoil use rights have been relinquished or have expired, the carrying value of the subsoil use rights acquisition costs is written off through profit or loss.

Identification of a cash generating unit (CGU)

The cash generating unit (CGU) applied for impairment test purposes is generally the block or a field, except that a number of block interests may be grouped as a single cash generating unit where the cash flows of each block are interdependent.

Fair valuation of the derivative financial asset

Management judgement is required in valuing the Group's derivative financial asset. The asset is described in further detail in note 14 and refers to an option to sell an investment that the Group holds. To value the option, the underlying investment also had to be fair valued.

As the underlying investment is unquoted, management had to use their judgements to determine its fair value by making reasonable assumptions on the discount factor to use, the gas prices to be used in generating a

Nobel Oil E&P (UK) Limited

Notes to the financial statements for the year ended 31 December 2019 (continued)

discounted cash flow, as well as other key strategic assumptions concerning the future financial and ownership structure of the underlying investment.

Management also had to make judgements to arrive at the fair value of the option including the risk-free interest rate to use, the volatility and the term of the option given that it has no expiration date. A pragmatic approach had to be taken to achieve a reasonable valuation that is subject and based on level 2 and level 3 inputs per the IFRS 13 hierarchy as opposed to observable market inputs.

4. Financial risk management

a. Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including currency risk), liquidity risk and credit risk. The Group has in place a risk management programme that seeks to limit the adverse effects on the financial performance of the Group. The policies are set by the Board and implemented by Group's management.

Market risk

Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily the UK Pound Sterling and Azerbaijani Manat ("AZN").

The Group does not use forward exchange to hedge exposure risk in respect of asset and liability balances, however the balances are not significant and therefore the directors do not believe there to be a significant exposure to foreign exchange risk.

The sterling dollar exchange rate remained volatile during the course of 2019. This was driven mainly by the uncertainty around the potential Brexit outcomes causing political turmoil that precipitated resignation of the UK Prime Minister in July followed by the UK general election in December. At the same time the US Federal Reserve did a sharp U-turn on the interest rate policy from tightening to loosening. The Group had capital and operating cost exposure in sterling from its North Sea operations and from its administrative and overhead expenses in London.

The Group is carefully reviewing the impact this will have on the Group's performance in the future and the policies it should implement to manage any associated risks.

For details of assets held in currencies other than US dollar see note 15.

Commodity price risk

A material decline in oil and gas prices adversely affects the Group's financial performance and value of the existing assets.

The oil prices recovered from the 2014/15 slump and remained robust until the latest crash in H1 2020 precipitated by the COVID-19 pandemic and exacerbated by the Saudi-Russia price war. The potential impact and likelihood of the oil price risk remain as high as ever due to volatility in the oil markets and susceptibility of the global economic growth to the lasting impacts of the COVID-19 pandemic, emerging protectionism, trade wars between US and China, UK's exit from the EU and shifts in public perception of and policy towards the impact of the oil industry on the climate change. This risk can be mitigated by a number of measures including hedging production, renegotiating supplier contracts and reducing costs and commitments.

The Group monitors oil price sensitivity relative to its capital commitments and seeks assets that continue to cover cash costs in a low oil price environment. In addition, the Group regularly reviews and implements suitable policies to hedge against the possible negative funding impacts of changes in oil prices.

Liquidity risk

Liquidity risk is the risk that the Group is unable to meet its current and future financial obligations as they fall due at acceptable cost. The Group has sufficient cash resources and expected cash flow from operations to meet its financial obligations. The Group's related party debt as detailed in note 23(1) is supported by the shareholder who also controls those related parties.

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Notes to the financial statements for the year ended 31 December 2019 (continued)

Cash flow forecasting is performed at the Group level. Group finance monitors rolling forecasts of the Group's liquidity requirements to ensure the parent and all the Group companies have sufficient cash to meet operational needs.

The table below analyses the Group's non-derivative financial liabilities in the relevant maturity groupings based on the remaining period at the balance sheet date.

	Less than 6 months \$'000	More than 6 months, less than 1 year \$'000	More than 1 year, less than 2 years \$'000
At 31 December 2019			
Trade payables	4,577	-	-
Amounts owed to related parties	-	73,156	-
Social security and other taxes	38	48	-
Accrued expenses and other liabilities	337	442	-
Lease liability	32	59	114
	4,984	73,705	114
At 31 December 2018			
Trade payables	2,151	-	-
Amounts owed to related parties	-	71,156	-
Social security and other taxes	-	64	-
Accrued expenses and other liabilities	939	492	-
	3,090	71,712	-

Credit risk

The Group takes on exposure to credit risk, which is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Exposure to credit risk arises as a result of the Group's sales of services and goods on credit terms and other transactions with counterparties giving rise to financial assets. The Group's main credit exposure is to its operating partners in the UK and the US. Given material investments in both regions trade receivables are most of the time more than offset by trade payables. The Group closely monitors its credit exposure on an ongoing basis.

b. Capital management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns to the parent undertaking and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. Total capital is calculated as "equity" as shown in the consolidated statement of financial position, plus net longer term borrowings.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid, capital returned to the parent undertaking, issue new shares or sell assets to reduce debt. No changes were made in the objectives, policies or processes during the year ended 31 December 2019. Capital consists of equity attributable to equity holders of the Company, which amounted to \$534,209,000 as at 31 December 2019 (2018: \$500,966,000).

5. Revenue by geographical area

The performance of the business is reviewed by the Board from a geographical perspective by reference to revenues generated by the three key geographical areas shown in the table below. The revenue, income / loss for the year, total assets and total liabilities are attributable to the principal activities of the Group as described in the strategic report on page 2. The geographical analysis of the Group's revenue for the years ended 31 December 2019 and 2018 are as follows:

Nobel Oil E&P (UK) Limited

Notes to the financial statements for the year ended 31 December 2019 (continued)

	Total segment revenue	Intra- group revenue	Revenue from external customers
	2019	2019	2019
	\$'000	\$'000	\$'000
United Kingdom	10,146	(1,090)	9,056
United States of America	16,860	(1,679)	15,181
Rest of the World	209	(209)	-
Total 2019	27,215	(2,978)	24,237
	2018	2018	2018
	\$'000	\$'000	\$'000
United Kingdom	8,429	(1,885)	6,544
United States of America	4,169	(720)	3,449
Rest of the World	226	(226)	-
Total 2018	12,824	(2,831)	9,993

Intra-group revenues reflect management service charges between entities within the Group.

6. Expenses by nature

	Note	Group 2019 \$'000	Group 2018 \$'000
Cost of sales			
Depletion and depreciation charge	10	8,424	4,808
Royalty expenses		3,567	814
Production taxes		812	129
Operating costs		2,667	1,384
Stock movements		(159)	(180)
Loss on cash flow hedges on commodity swaps	14	45	255
Loss on cash flow hedges on commodity swaps reclassified from other comprehensive income	14	-	444
		15,356	7,654
Administrative expenses			
Depreciation charge	10	34	49
Amortisation charge	11	936	233
Accretion on decommissioning provisions	21	65	61
Legal and professional fees		1,485	1,008
Director and employee costs	8	1,946	2,250
Communication expense		50	48
Travelling costs		247	294
Auditor remuneration	7	103	76
Operating lease payments	10	257	243
Loss on sale of fixed assets		-	3
Insurance		188	163
Other expenses		181	194
		5,492	4,622
Total cost of sales and administrative expenses		20,848	12,276

Nobel Oil E&P (UK) Limited, as an individual entity has no cost of sales or administrative expenses.

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Notes to the financial statements for the year ended 31 December 2019 (continued)

7. Auditor's remuneration

	2019 \$'000	2018 \$'000
Fees payable to the Group auditor for the audit of the parent company and consolidated financial statements	79	64
Fees payable to the Group auditor for the audit of subsidiary financial statements	7	-
- Tax compliance and other non-audit services	17	12
	103	76

8. Director and employee costs

	Group 2019 \$'000	Group 2018 \$'000
Wages and salaries	1,665	1,934
Pension costs: Company contributions to a Defined contribution plan	76	74
Social security costs	205	242
	1,946	2,250

Under the Pensions Act 2008, every employer in the UK must put certain staff into a pension scheme and contribute towards it (known as 'automatic enrolment'). The Group has in place a defined contribution retirement benefit scheme for UK based employees where a contribution of 8% from April 2019 (5% prior to April 2019) is paid on gross wages. The only obligation of the Group with respect to the retirement benefit scheme is to make specified contributions. Payments to the defined contribution scheme are charged as an expense as they fall due.

The average monthly number of employees, including executive directors, during the year by activity was as follows:

	2019 No.	2018 No.
Administration	11	11
	11	11

The Company, Nobel Oil E&P (UK) Limited, as an individual entity has no employee benefit expenses.

Group Directors	2019 \$'000	2018 \$'000
Aggregate emoluments	680	693
	680	693

In the aggregate emoluments shown above, \$441,000 (2018: \$470,000) relates to the highest paid director.

Nobel Oil E&P (UK) Limited

Notes to the financial statements for the year ended 31 December 2019 (continued)

9. Taxation

	2019 \$'000	2018 \$'000
Current tax - current year	-	-
Deferred tax - current year income tax	(729)	1,780
Total tax (charge)/ credit in the consolidated statement of profit and loss	(729)	1,780
Tax relating to components of other comprehensive income	-	(178)
Total tax (charge)/ credit in the consolidated statement of profit and loss and other comprehensive income	(729)	1,602

Tax on the Group's loss before tax differs from the theoretical amount that would arise using the standard tax rate applicable in the UK to profits of the consolidated entities as follows:

	2019 \$'000	2018 \$'000
Profit/ (loss) before income tax	33,231	37,986
Expected tax credit on profit or loss at standard UK rate of 19.00% (2018: 19.00%)	(6,314)	(7,217)
Tax effects of:		
Expenses not deductible for tax purposes	(2)	(3)
Income not taxable	5,605	7,600
Effects of differences in tax rates	(286)	685
Utilisation of losses brought forward	582	-
Ring Fence Expenditure Supplement	307	257
Movement in unrecognised deferred tax and other temporary differences	(621)	458
Income tax credit	(729)	1,780

Factors affecting current and future tax charges

The standard rate of corporation tax in the UK is 19% for the year ended 31 December 2019 (2018: 19 %). As at the balance sheet date the UK Government had legislated to reduce the main rate of corporation tax to 17% with effect from 1 April 2020. As a result the Company has measured deferred tax on temporary differences as at 31 December 2019 at the rate of 17%, being the rate which was substantively enacted as at the balance sheet date. However, subsequent to the balance sheet date the UK Government introduced legislation to maintain the UK corporation tax main rate at 19% from 1 April 2020. This legislation was substantively enacted on 17 March 2020. Deferred tax balances will be remeasured as at the next balance sheet date based on the corporation tax rate substantively enacted at that time."

The UK Ring Fence corporation tax rate is 30% and the supplementary charge rate is 10%. UK deferred tax has been calculated at a rate of 40% since it has only been recognised in respect of activities within the oil and gas ring fence.

US deferred tax has been recognised at the prevailing tax rate of 21% (2018:21%).

Nobel Oil E&P (UK) Limited

Notes to the financial statements for the year ended 31 December 2019 (continued)

Deferred Income Tax

Deferred tax assets have not been recognised in respect of losses carried forward of \$5,362,000 (2018: \$8,398,000), fixed asset temporary differences of \$18,000 (2018: \$22,000) and other temporary differences of \$358,000 (2018: \$349,000). Given uncertainty about the availability of suitable taxable income to offset some of the losses and fixed asset timing differences, and therefore the recoverability of the asset in the foreseeable future, \$976,000 (2018: \$1,483,000) of deferred tax assets have not been recognised.

In respect of the Group's upstream companies, deferred tax assets have not been recognised in respect of the tax losses carried forward of \$168,000 (2018: Nil) and asset retirement obligation of \$5,053,000 (2018: Nil) in relation to UK North Sea activity. Given uncertainty about the availability of suitable taxable income to offset some of the losses and asset retirement obligation, and therefore the recoverability of the asset in the foreseeable future, \$2,088,000 (2018: \$Nil) of deferred tax assets have not been recognised, while a deferred tax asset has been recognised in relation to North America activity.

	Unused tax losses \$'000	Fixed asset temporary differences \$'000	ARO \$'000	Total \$'000
<i>As at 31 December 2018</i>				
Deferred tax assets	14,443	(12,224)	1,890	4,109
Deferred tax (liabilities)	-	-	-	-
Net deferred tax asset / (liability)	14,443	(12,224)	1,890	4,109
<i>Recognised in the year</i>				
Recognised in the income statement - credit/(charge)	1,947	(786)	(1,890)	(729)
<i>As at 31 December 2019</i>				
Deferred tax assets	16,390	-	-	16,390
Deferred tax (liabilities)	-	(13,010)	-	(13,010)
Net deferred tax asset / (liability)	16,390	(13,010)	-	3,380

Nobel Oil E&P (UK) Limited

Notes to the financial statements for the year ended 31 December 2019 (continued)

10. Property, plant and equipment

Group	Drilling and well equipment \$'000	Decommissioning assets \$'000	Other assets * \$'000	Total \$'000
Cost				
As at 1 January 2018	39,258	4,581	322	44,161
Reclassification from intangible assets	2,808	-	-	2,808
Disposals	-	-	(18)	(18)
Additions	13,830	-	2	13,832
As at 31 December 2018	55,896	4,581	306	60,783
Accumulated depreciation				
As at 1 January 2018	(11,307)	(1,375)	(163)	(12,845)
Disposals	-	-	6	6
Depreciation charge (note 6)	(4,164)	(644)	(49)	(4,857)
As at 31 December 2018	(15,471)	(2,019)	(206)	(17,696)
Net book value				
Cost	55,896	4,581	306	60,783
Accumulated depreciation	(15,471)	(2,019)	(206)	(17,696)
As at 31 December 2018	40,425	2,562	100	43,087
Cost				
As at 1 January 2019	55,896	4,581	306	60,783
Reclassification from intangible assets	1,576	-	-	1,576
Foreign exchange adjustments	-	(842)	-	(842)
Disposals	-	-	(66)	(66)
Additions	10,939	1,129	206	12,274
As at 31 December 2019	68,411	4,868	446	73,725
Accumulated depreciation				
As at 1 January 2019	(15,471)	(2,019)	(206)	(17,696)
Disposals	-	-	67	67
Depreciation charge (note 6)	(7,829)	(595)	(34)	(8,458)
As at 31 December 2019	(23,300)	(2,614)	(173)	(26,087)
Net book value				
Cost	68,411	4,868	446	73,725
Accumulated depreciation	(23,300)	(2,614)	(173)	(26,087)
As at 31 December 2019	45,111	2,254	273	47,638

* Other assets comprise fixtures, fittings; computer equipment; and the right to use asset.

Following an analysis carried out in 2018, decommissioning assets have been reclassified from intangible assets to property, plant and equipment. As a result, the prior year comparative figures have been amended to comply with the current year presentation, which resulted in an increase of the property, plant and equipment balance and reduction of intangible assets balance by \$3,206,000 as at 1 January 2018.

Cash outflow for the purchases of drilling and well equipment was \$8,289,000 (2018: \$12,790,000) and for office equipment was \$2,000 (2018: \$2,000).

Depreciation of \$34,000 (2018: \$49,000) has been charged in 'administrative expenses' and \$8,424,000 (2018: \$4,808,000) has been charged in 'cost of sales' (see note 6) in the consolidated statement of profit or loss and other comprehensive income.

Other assets additions in 2019 include the right-of-use asset of \$206,000 (2018: \$nil) as a result of the implementation of IFRS 16. The lease relates to the rental of the London office. There was no depreciation charge

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Notes to the financial statements for the year ended 31 December 2019 (continued)

relating to the right of use asset in 2019 (2018: \$nil) as the lease was entered into in 2019 but commences in February 2020.

Proceeds from disposal and sale of fixtures and fittings was nil (2018: \$8,000).

Property lease rentals amounting to \$257,000 (2018: \$243,000), relating to the lease of property are included in 'administrative expenses' in the consolidated statement of profit or loss and other comprehensive income.

The Company, Nobel Oil E&P (UK) Limited, as an individual entity has no property, plant and equipment.

11. Intangible assets

Group	Exploration and evaluation \$'000	Total \$'000
Cost		
As at 1 January 2018	14,990	14,990
Reclassification to drilling and well equipment assets	(2,808)	(2,808)
Additions	1,761	1,761
As at 31 December 2018	13,943	13,943
Accumulated amortisation		
As at 1 January 2018	(1,843)	(2,090)
Amortisation charge (note 6)	(233)	(233)
As at 31 December 2018	(2,076)	(2,323)
Net book value		
Cost	13,943	13,943
Accumulated amortisation	(2,076)	(2,076)
As at 31 December 2018	11,867	11,867
Cost		
As at 1 January 2019	13,943	13,943
Reclassification to drilling and well equipment assets	(1,576)	(1,576)
Additions	5,423	5,423
As at 31 December 2019	17,790	17,790
Accumulated amortisation		
As at 1 January 2019	(2,076)	(2,323)
Amortisation charge (note 6)	(936)	(936)
As at 31 December 2019	(3,012)	(3,259)
Net book value		
Cost	17,790	17,790
Accumulated amortisation	(3,012)	(3,012)
As at 31 December 2019	14,778	14,778

The recoverability of the carrying amount of the exploration and evaluation in assets is dependent on successful development and commercial exploitation, or alternatively, sale of the respective areas of interest.

Cash outflow for the acquisitions of exploration and evaluation assets was \$5,513,000 (2018: \$1,458,000). Amortisation of \$936,000 (2018: \$233,000) has been charged in 'administrative expenses' in the statement of profit or loss and other comprehensive income.

The Company, Nobel Oil E&P (UK) Limited, as an individual entity has no intangible assets.

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Notes to the financial statements for the year ended 31 December 2019 (continued)

12. Investments

a. Investment in joint venture

The Group holds a 20% interest in Umid, Babek Exploration and Production ("UBEP") company registered in the Cayman Islands. UBEP is the sole contractor under the Risk Service Agreement and the related contract on conduct of petroleum operations in the offshore block including the Umid-Babek field in the Azerbaijan sector of the Caspian Sea (the "RSA"). The RSA was ratified by the parliament of the Republic of Azerbaijan in May 2017. The Group has joint control over UBEP together with SOCAR as the owner of the remaining 80% shares in UBEP pursuant to contractual arrangements, including a shareholders agreement with a broad list of reserved matters requiring unanimity.

Group cost and net book value	2019 \$'000	2018 \$'000
At 1 January	114,838	114,838
At 31 December	<u>114,838</u>	<u>114,838</u>

Name of entity	Place of business / country of incorporation	Proportion of ordinary shares directly held by parent (%)	Proportion of ordinary shares directly held by the Group (%)	Nature of relationship
UMID, BABEK EXPLORATION AND PRODUCTION ("UBEP")	Cayman Islands	20	20	*

* UBEP operates in the oil and gas industry in Azerbaijan.

UBEP is a private company and there is no quoted market price available for its shares. The Group's share of results in UBEP was Nil (2018: Nil).

b. Principal subsidiaries

The Group had the following principal subsidiaries at 31 December 2019:

	Country of incorporation and place of business	Nature of business	Proportion of ordinary shares directly held by parent (%)	Proportion of ordinary shares held by the group (%)
Nobel Oil E&P Management (UK) Limited	UK	Service company	100	100
Nobel Upstream Management PLC	UK	Service company	-	100
Nobel Oil E&P North America (UK) Limited	UK	Holding company	100	100
Nobel Oil E&P North America LLC	United States of America	**	-	100
Nobel Oil E&P Caspian Ltd	UK	*	100	100
Nobel Oil E&P North Sea Ltd	UK	**	100	100

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Notes to the financial statements for the year ended 31 December 2019 (continued)

* Investing in joint ventures in the oil and gas industry

** Investing in joint operations in the oil and gas industry

All subsidiary undertakings are included in the consolidation. The proportion of the voting rights in the subsidiary undertakings held directly by the parent company do not differ from the proportion of ordinary shares held.

c. Investment in subsidiaries

Company	2019 \$'000	2018 \$'000
Shares in group undertakings		
As at 1 January	107,077	85,845
Additions in the year	-	18,724
Impairment of investment	(6,847)	-
Reversal of impairment of investment	3,020	2,508
At 31 December	103,250	107,077

Nobel Oil E&P (UK) Limited owns 100% of the shares issued by Nobel Oil E&P North America (UK) Limited. There was no change in share capital in 2019 (during 2018 an additional \$12,724,022 share capital was paid up in exchange for ordinary shares of \$1 each).

Nobel Oil E&P (UK) Limited owns 100% of the shares issued by Nobel Oil E&P Management (UK) Limited. There was no change in share capital in 2019 (2018: no change).

Nobel Oil E&P (UK) Limited owns 100% of the shares issued by Nobel Oil E&P North Sea Limited. There was no change in share capital in 2019 (during 2018 an additional \$6,000,000 share capital was paid up in exchange for ordinary shares of \$1 each).

Nobel Oil E&P (UK) Limited owns 100% of the shares issued by Nobel Oil E&P Caspian Limited. There was no change in share capital in 2019 (2018: no change).

Investments in group undertakings are recorded at cost, which is the fair value of the consideration paid.

In 2019 there was an impairment charge of \$6,847,000 (2018: £nil) in the investment in Nobel Oil E&P North Sea Limited to reflect the difference between the carrying amount of the investment and the carrying amount of the investee's net assets.

In 2019, there was an impairment reversal of \$3,020,000 (2018: \$2,508,000) to reflect the net income made by Nobel Oil E&P Management (UK) Limited in the year.

Parent guarantee

Nobel Oil E&P Management (UK) Limited (company registered number 08891699), Nobel Oil E&P North Sea Limited (company registered number 09856429), Nobel Oil E&P North America (UK) Limited (company registered number 08869991), Nobel Oil E&P Caspian Limited (company registered number 10253147) and Nobel Upstream Management PLC (company registered number 12029317) are exempt under s479A from the requirements of the Companies Act 2006 relating to the audit of individual accounts. Nobel Oil E&P (UK) Limited, as a parent undertaking, has given a guarantee under s479C with the effect that:

- it guarantees all outstanding liabilities to which Nobel Oil E&P Management (UK) Limited, Nobel Oil E&P North Sea Limited, Nobel Oil E&P North America (UK) Limited, Nobel Oil E&P Caspian Limited and Nobel Upstream Management PLC are subject at 31 December 2019, until they are satisfied in full; and
- the guarantee is enforceable against Nobel Oil E&P (UK) Limited by any person to whom the subsidiary is liable in respect of those liabilities.

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Notes to the financial statements for the year ended 31 December 2019 (continued)

13. Business combinations

Goodwill arising on acquisition

	Group 2019 \$'000	Group 2018 \$'000
At 1 January	5,146	5,146
At 31 December	5,146	5,146

The goodwill of \$5,146,000 was recognised in Nobel Oil E&P North Sea Limited books in connection with a deferred tax liability disclosed in note 9 in respect of an acquisition of a non-operated interest in the Maclure oil and gas field from Shell completed in 2016. There were no acquisitions in 2019 and 2018.

The Group performed its annual impairment test in December 2019 and 2018. As at 31 December 2019 and 2018, the recoverable value of the Maclure cash generating unit ("CGU") exceeded the carrying value, indicating no impairment of goodwill is required.

The recoverable amount of the Maclure CGU, as at 31 December 2019, has been determined based on a discounted cash flow calculation. The business cash flow internal model, which is approved on an annual basis by senior management, is the primary source of information for the determination the net present value of cashflows. It contains forecasts for oil and gas production, sales volumes for various types of products, revenues, costs and capital expenditure. As an initial step in the preparation of this model, various assumptions are set by senior management. These assumptions take account of commodity prices, global supply-demand equilibrium for oil and natural gas, other macroeconomic factors and historical trends and variability. In assessing net present value, the estimated future cash flows are adjusted for the risks specific to the asset group and are discounted to their present value. The oil price assumption used for determining the recoverable amount was \$57/bbl.

The discount rate applied to cash flow projections is 10.0% (2018: 10.0%). It was concluded that the fair value less costs of disposal exceeded the carrying amount. As a result of this analysis, management has not recognised an impairment charge in the current or prior year against goodwill.

Key assumptions used in net present value calculations and sensitivity to changes in assumptions

The calculation of the recoverable value for the Maclure CGU is most sensitive to the following assumptions:

Crude oil prices

Estimates are obtained from published futures indices for Brent crude oil. A decrease in the price of crude oil by \$10/ bbl would not trigger an impairment.

Discount rates

Discount rates represent the current market assessment of the risks specific to the CGU, taking into consideration the time value of money and individual risks of the underlying assets that have not been incorporated in the cash flow estimates. The discount rate calculation is based on the specific circumstances of the Group and its industry and is derived from its weighted average cost of capital, which takes into account both debt and equity.

A rise in the discount rate by a 2%-point would not trigger an impairment.

Nobel Oil E&P (UK) Limited

Notes to the financial statements for the year ended 31 December 2019 (continued)

14. Financial instruments by category

The following table represents the carrying amounts of each category of financial assets and liabilities:

	Group 2019	Group 2018	Company 2019	Company 2018
Assets as per statement of financial position	\$'000	\$'000	\$'000	\$'000
Loans and receivables at amortised cost				
Trade and other receivables	5,928	6,087	-	-
Cash and cash equivalents	4,932	3,610	26	69
	10,860	9,697	26	69
Derivative financial instruments	420,000	390,500	-	-
Total	430,860	400,197	26	69
Liabilities as per statement of financial position				
Other financial liabilities at amortised cost	78,689	74,802	7,072	7,120
Total	78,689	74,802	7,072	7,120

Trade and other receivables

At 31 December 2019 and 2018, the fair values of trade and other receivables approximate to their carrying amount. At 31 December 2019 and 2018, no amounts of loans and receivables were past due other than a loan made to SOCAR of \$2,669,000 (2018: \$2,406,000) inclusive of accrued interest of \$648,000 (2018: \$385,000). The loan was repayable on 7 November 2017. The balance has been fully settled post year end in September 2020 as such the loan has not been impaired.

Derivative financial instrument – non-current asset

In 2017, the Group entered into a Share Swap Agreement ("SSA") with SOCAR to sell all of its shares in its wholly-owned subsidiary Nobel Oil Exploration and Production Ltd to SOCAR in exchange for 20% of the shares in Umid, Babek Exploration and Production ("UBEP") company, which is the sole contractor under the RSA. The RSA was ratified by the parliament of the Republic of Azerbaijan in May 2017.

Under the SSA, the Group has the right to sell its 20% interest in UBEP to SOCAR if Nobel Oil E&P Caspian Limited is not a party to the RSA by 3 April 2017 for an agreed fixed price plus interest accumulating since 3 April 2017 (the "Put Option").

The fair value of the Put Option is \$420.0 million as at 31 December 2019 (2018: \$390.5 million) and classed as a non-current asset as it is not expected to be exercised before 31 December 2020. The unrealised derivative gain of \$29.5 million (2018: \$40.0 million) was recognised and classified in "Gain on revaluation of the derivative financial asset" through the consolidated statement of profit and loss being the difference between the fair value of the Put Option from one year end to the other.

As there is no market value available to determine the fair value of the option, the value was based on estimates from Level 3 unobservable inputs as defined in the IFRS 13 hierarchy. This fair value of the Put Option was estimated using the Black & Scholes formula.

The significant unobservable inputs used in the fair value measurement categorised within Level 3 of the fair value hierarchy, together with a quantitative sensitivity analysis as at 31 December 2019 and 2018 are shown below:

Time to expiration

As the option has no expiry date, and can be exercised at any date, management had to take a subjective view of the exercise date as an input to the formula. The time to expiration of 3 years (2018: 4 years) was used in the formula. If the assumed exercise date was delayed by 1 year, the Put Option fair value would increase by \$81.5 million (2018: \$21.8 million). If the assumed exercise date was brought forward by 1 year, the Put Option fair value would decrease by \$0.1 million (2018: \$21.4 million). There is an interrelation between the time to expiry

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Notes to the financial statements for the year ended 31 December 2019 (continued)

and the strike price. The longer the time to expiry, the larger is the strike price given that the strike price has interest accumulating since 3 April 2017. This interrelation is factored into the aforementioned impacts on increases and decreases of the time to expiration.

Risk free rate

The risk-free interest rate used in the formula was 3.14% (2018: 4.76%) based on the yield curve on SOCAR's international bonds. The yields on SOCAR's publicly traded USD bonds maturing in 2023 and 2030 were 3.17% (2018: 4.80%) and 4.13% (2018: 6.01%), respectively. The bonds are reflective of the risk-free rate in Azerbaijan as SOCAR's rating being a national oil company is on par with the sovereign rating according to Moody's Investors Service. The yield curve was derived from the market yields of the two bonds. If the risk-free interest rate used was increased by a 1%-point, the Put Option fair value would decrease by \$11.7 million (2018: \$14.4 million). If the risk-free interest rate used was decreased by a 1%-point, the Put Option fair value would increase by \$12.1 million (2018: \$15.0 million).

Volatility

The volatility used in the formula was 70% (2018: 70%). This was calculated based on a spread of volatilities for exploration and production companies, the majority of which are non-majors and have similar profiles to the Group. If the volatility used was increased by a 10%-point, the Put Option fair value would increase by \$5.1 million (2018: \$6.7 million). If the volatility used was decreased by a 10%-point, the Put Option fair value would decrease by \$4.3 million (2018: \$6.1 million).

Spot price

The spot price used in the formula was the fair value of the underlying investment using the cost approach which represents its carrying value on the balance sheet. If the spot price used was increased by \$10 million, the Put Option fair value would decrease by \$5.6 million (2018: \$4.7 million). If the spot price used was decreased by \$10 million, the Put Option fair value would increase by \$5.7 million (2018: \$4.9 million).

Strike price

The strike price used in the formula was the contractual fixed price to be achieved on the exercise of the Put Option plus interest accumulating since 3 April 2017. The strike price used in the formula was \$598.1 million (2018: \$616.8 million). If the strike price used was increased by \$10 million, the Put Option fair value would increase by \$12.4 million (2018: \$6.0 million). If the strike price used was decreased by \$10 million, the Put Option fair value would decrease by \$0.9 million (2018: \$6.0 million).

Discount for lack of marketability ("DLOM")

A DLOM of 5.0% (2018: 6.2%) was applied to the full Put Option value and represents the amounts that the Group has determined that market participants would take into account when pricing the Put Option. This was calculated by applying a discount of 25% to the value accreting from the reporting date to the assumed option exercise date. If the discount using the Finnerty model was increased by a 5%-point, the Put Option fair value would decrease by \$4.4 million (2018: \$5.2 million). If the discount using the Finnerty model was decreased by a 5%-point, the Put Option fair value would increase by \$4.4 million (2018: \$5.2 million).

Derivative financial liability

The Group entered into a zero-cost collar arrangement with an effective date of 1 January 2018 with Brent blend crude oil being the commodity traded. The purpose of the derivative hedging instrument is to manage commodity price risk and income statement volatility.

At 31 December 2017, the Group had 67,740 bbls of open oil swaps. The fair value of these oil swaps at 31 December 2017 was a liability of \$444,000. These were fully released to the income statement during 2018 as the related barrels were lifted. In 2018, the final hedging cost amounted to \$699,000 as Brent crude oil prices performed better than anticipated.

This arrangement was a combination of a purchased option and a written option and gave the Group the option to sell 67,740 bbls at \$50/ bbl whilst giving the counterparty the option to buy the same volume at \$60/bbl. The

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Notes to the financial statements for the year ended 31 December 2019 (continued)

premium that would be paid for the purchased option was offset by the premium that would be received under the written option resulting in the net collar agreement having a nil premium.

The agreement fixed the price of the oil within a range or the "collar". This allowed the Group to benefit from the possible decreases in the price of oil per below \$50/ bbl but also exposed it to possible increases in prices above \$60/ bbl. As this was an effective cash flow hedge as defined by IAS 39, the resulting loss was included in Other Comprehensive Income. There would have been no difference in treatment under IFRS 9.

In 2019, the Group entered into an Asian put option arrangement from 1 April 2019 to 30 September 2019 with West Texas crude oil being the commodity traded with a premium paid of \$45,000 and with a strike price of \$50/bbl. The option was not exercised during the period of the arrangement.

15. Trade and other receivables

	Group 2019 \$'000	Group 2018 \$'000	Company 2019 \$'000	Company 2018 \$'000
Trade receivables	2,196	2,124	-	-
Prepayments and accrued income	323	738	-	-
Loans to related parties (note 23)	-	-	-	-
VAT recoverable	92	232	-	-
Other receivables	3,317	2,993	-	-
	5,928	6,087	-	-
Less non-current portion:				
Other receivables	(609)	(2,955)	-	-
	(609)	(2,955)	-	-
Current portion	5,319	3,132	-	-

Non-current receivables include the following:

- Zero-interest loan to key management personnel of £500,000 in 2019 and in 2018 (2019: \$609,000; 2018: \$549,000).
- Loan to SOCAR of AZN 3,578,000 (2019: Nil as it was reclassified to current receivables; 2018: \$2,406,000). In 2019 the loan was reclassified back to current receivables as it was agreed that the loan would be fully repaid before 31 December 2020. This repayment has now taken place in September 2020. The loan was interest free up to 6 November 2017 but has become repayable on 7 November 2017 with interest being charged daily after the due date at the average refinancing rate per annum for the Central Bank of Azerbaijan, plus two per cent (2%). The accumulated unpaid interest accrued as at 31 December 2019 was \$648,000 (2018: \$385,000). The interest was accrued at 17.00% from 8 November 2017 to 11 February 2018; 15.00% to 8 April 2018; 13.00% to 13 June 2018; 12.00% to 28 October 2018; 11.75% to 31 January 2019; 11.25% to 14 March 2019; 11.00% to 25 April 2019; 10.75% to 6 June 2019; 10.50% to 25 July 2019; 10.25% to 12 September 2019; 10.00% to 24 October 2019; 9.75% to 12 December 2019 and 9.50% to 31 December 2019.

The fair values of trade and other receivables are equivalent to the carrying amounts. The carrying amounts of receivables are denominated in the following currencies:

	Group 2019 \$'000	Group 2018 \$'000	Company 2019 \$'000	Company 2018 \$'000
US Dollars	2,160	2,599	-	-
UK Pound Sterling	1,095	1,075	-	-
Azerbaijani Manat	2,673	2,413	-	-
	5,928	6,087	-	-

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Notes to the financial statements for the year ended 31 December 2019 (continued)

The other classes within trade and other receivables do not contain impaired assets.

The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivable mentioned above. Neither the Group nor the Company hold collateral as security.

16. Cash and cash equivalents

	Group	Group	Company	Company
	2019	2018	2019	2018
	\$'000	\$'000	\$'000	\$'000
Cash at bank and in hand	4,932	3,610	26	69

17. Trade and other payables

	Group	Group	Company	Company
	2019	2018	2019	2018
	\$'000	\$'000	\$'000	\$'000
Trade payables	4,577	2,151	-	-
Amounts owed to related parties (note 23)	73,156	71,156	7,045	7,091
Overlift liability	-	581	-	-
Social security and other taxes	113	99	27	29
Accrued expenses	752	815	-	-
Lease liability	205	-	-	-
	78,803	74,802	7,072	7,120
Less non-current portion:				
Lease liability	(114)	-	-	-
	(114)	-	-	-
Current portion	78,689	74,802	7,072	7,120

The lease liability has been classified as either short-term or non-current in the balance sheet according to whether it is expected to be settled within 12 months of the balance sheet date. The lease liability is only represented by the lease for the London office. Lease payments were discounted at 31 December 2019 using an incremental borrowing rate representing the rate of interest that the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The incremental borrowing rate applied to the lease was determined by taking into account the risk-free rate, adjusted for factors such as the credit rating linked to the life of the underlying lease agreement. The weighted average incremental borrowing rate applied by the Group was 8 per cent.

18. Ordinary shares

Group	Number of shares ('000)	Share Capital \$'000	Total equity \$'000
Balance at 1 January 2018	89,420	89,420	89,420
Balance at 31 December 2018	89,420	89,420	89,420
Balance at 1 January 2019	89,420	89,420	89,420
Balance at 31 December 2019	89,420	89,420	89,420

In 2019 and 2018 there have been no changes in ordinary shares.

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Notes to the financial statements for the year ended 31 December 2019 (continued)

19. Merger reserve

	2019 \$'000	2018 \$'000
At 1 January	20,592	20,592
At 31 December	20,592	20,592

The balance on the reserve relates to the capital reorganisation that took place during 2014 which created a new holding company which is incorporated and domiciled in the UK.

In accordance with section 610 of the Companies Act 2006 the difference between the nominal value of equity instruments issued (100 ordinary shares of \$1) and the carrying amount of Nobel Oil Exploration & Production Ltd (\$20,592,000) has been credited to the merger reserve.

20. Retained Earnings

	Group \$'000	Company \$'000
At 1 January 2018 (restated)	350,922	(12,477)
Total comprehensive profit for the year	40,032	2,491
At 1 January 2018	390,954	(9,986)
Total comprehensive profit/ (loss) for the year	32,502	(3,822)
At 31 December 2019	423,456	(13,808)

21. Provisions for other liabilities and charges

Decommissioning provision	2019 \$'000	2018 \$'000
At 1 January	4,793	4,732
Additions	1,129	-
Foreign exchange adjustments	(809)	-
Accretion	65	61
At 31 December	5,178	4,793

At 31 December 2019, the provision for the costs of decommissioning the company's oil and natural gas production facilities and pipelines at the end of their economic lives was \$5,178,000 (2018: \$4,793,000). These costs are expected to be incurred over the next 22 years for West Texas costs and over 13 years for North Sea costs. The provision has been estimated using existing technology, at current prices and discounted using a risk free rate of 3.25% for West Texas costs and 1.32% for North Sea costs. An inflation rate of 2.0% has been used in the calculation of the decommissioning provision.

The Company, Nobel Oil E&P (UK) Limited, as an individual entity has no provisions for other liabilities and charges (2018: \$nil).

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Notes to the financial statements for the year ended 31 December 2019 (continued)

22. Operating lease commitments

The future aggregate minimum lease payments under non-cancellable operating leases as follows:

	Group 2019 \$'000	Group 2018 \$'000
Within one year	243	229
Within two to five years	142	-
	385	229

The Company Nobel Oil E&P (UK) Limited as an individual entity has no operating lease commitments.

23. Related party transactions

The following transactions were undertaken with related parties:

Key management comprises directors and details of their remuneration are set out in note 8.

	Group 2019 \$'000	Group 2018 \$'000	Company 2019 \$'000	Company 2018 \$'000
Loan to key management of the Company:				
At 1 January ⁴	549	570	-	-
Exchange difference ⁴	60	(21)	-	-
At 31 December	609	549	-	-
Loans from related parties:				
At 1 January ^{1,2}	(71,156)	(63,356)	(7,091)	-
Loans advanced during the year ^{1,2}	(2,000)	(8,000)	(374)	(7,091)
Loan repayments ²	-	200	421	-
At 31 December	(73,156)	(71,156)	(7,044)	(7,091)
Loans to related parties:				
At 1 January ³	-	-	-	11,690
Loan repayments ³	-	-	-	(11,690)
At 31 December	-	-	-	-

1) At 31 December 2019, amounts payable to other related parties of \$73,156,000 (2018: \$71,156,000) was due to Nobel Oil Ltd and Contest Oil (UK) LLP totalling \$57,316,000 (2018: \$55,316,000) and \$15,840,000 (2018: \$15,840,000) respectively. These companies are under common control of the ultimate beneficial owner.

The payables to related parties have arisen mainly from group investment and are repayable on demand and bear no interest.

2) At 31 December 2019, \$7,044,000 (2018: \$7,091,000) represents a loan outstanding to Nobel Oil E&P Caspian Ltd of \$5,994,000 (2018: \$5,992,000), to Nobel Oil E&P Management (UK) Ltd of \$671,000 (2018: \$1,092,000), Nobel Oil E&P North Sea Ltd of \$92,000 (2018: \$7,000) and to Nobel Oil E&P North America (UK) Limited of \$287,000 (2018: \$nil). In 2019, \$374,000 (2018: \$7,091,000) was advanced to Company during the year and \$421,000 (2018: \$nil) was repaid by the Company.

3) At 1 January 2018, the loans to related parties represents a loan of \$11,690,000 outstanding from Nobel Oil E&P Management (UK) Ltd. At 31 December 2018 this loan was fully repaid.

4) This is zero-interest loan of £500,000 made available to key management personnel.

Nobel Oil E&P (UK) Limited

Notes to the financial statements for the year ended 31 December 2019 (continued)

24. Contingent assets

As disclosed in note 12, the Group holds a 20% interest in Umid, Babek Exploration and Production ("UBEP") company registered in the Cayman Islands. UBEP is the sole contractor under the Risk Service Agreement and the related contract on conduct of petroleum operations in the offshore block including the Umid-Babek field in the Azerbaijan sector of the Caspian Sea (the "RSA"). The Group also entered into a shareholders agreement with SOCAR in relation to governance of UBEP granting the Group negative control over key decisions. The Group and SOCAR have agreed to bring in an international oil company as an operating partner to develop the Umid-Babek field.

The Group is also contractually entitled to a payment from SOCAR due upon the Group issuing a notice (the "Payment"). The Group issued such notice on 24 January 2018. As at 31 December 2019, SOCAR had not made the Payment. There is an ongoing dialogue between the Group and SOCAR in respect of this overdue payment. Furthermore, the Group is in dispute with SOCAR over SOCAR's conduct in the Umid-Babek contract area. Following receipt of legal advice, the Group believe that if these matters are referred to arbitration, a favourable outcome for the Group is highly probable by enforcing the contractual agreement with SOCAR. However, the contingent asset has not been recognised as a receivable at 31 December 2019 (2018: Nil), as receipt of the Payment is dependent on concluding the negotiations with SOCAR. Due to the ongoing negotiations and the sole shareholder's other business interests in the Republic of Azerbaijan, the directors have not pursued the Payment through legal means pending the sole shareholder's approval.

25. Events after the reporting period

Post the balance sheet date, macro-economic uncertainty has arisen due to COVID-19, which has impacted oil and gas pricing in addition to significant commodity market volatility relating to the global demand and supply of oil. The Group took immediate action to preserve cash and cut discretionary elements of its annual budget as well as agree preferential payment terms with key suppliers. Furthermore, drilling of eight new wells in the US Permian basin included in the 2020 Group's investment plan, have been phased out to preserve liquidity and maintain cash flow resilience.

The Group has secured a five-year \$25 million loan from a US bank to fund its US investments with the following amortisation schedule: 15% in 2023, 15% in 2024 and 70% in 2025.

In September 2020, SOCAR repaid its loan to the Group that was due in November 2017 as disclosed in note 15. The amount repaid was the principal of \$2,053,000 and accumulated interest of \$731,000.

In addition, the significant estimates and judgements that will be made in preparing future financial statements may also be impacted if the current macro-economic uncertainty continues and estimates of long-term commodity prices decrease. In particular, we expect the estimated recoverable amounts of intangible assets, property, plant and equipment and goodwill would be lower and the headroom of recoverable amounts over respective carrying values would reduce. We do not believe, based on current forecasts, that significant impairments would arise.

26. Ultimate controlling party

The Company's ultimate controlling party is Nasib Jabbar oglu Hasanov by virtue of his 100% ownership of the share capital of Nobel Oil E&P (UK) Limited.