Whalsay Energy Limited

Annual Report and Financial Statements

for the year ended 31 December 2018

Company number: 04560068

Whalsay Energy Limited
Annual Report and Financial Statements
for the year ended 31 December 2018

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Whalsay Energy Limited
For the year ended 31 December 2018

Officers and Principal Advisers

Directors
Carlo Mattoni
Shanil Shah
Paul Warwick

Company Secretary
Andrew Fairclough

Registered office
1 Park Row
Leeds
LS1 5AB

Operations office
7 Queen's Gardens
Aberdeen
AB15 4YD

Auditors
BDO LLP
55 Baker Street
London
W1U 7EU

Tax Advisers
PwC LLP
The Capitol
431 Union Street
Aberdeen
AB11 6DA

Principal Bankers
Royal Bank of Scotland plc
40 Albyn Place
Aberdeen
AB10 1YN

Legal Advisers
Pinsent Masons LLP
13 Queen's Road
Aberdeen
AB15 4YL

Whalsay Energy Limited
For the year ended 31 December 2018

Strategic Report

Organisational overview

The principal activity of the Company is as an operating company involved in the appraisal and development of oil resources in the UK North Sea. The Company considers this activity to be currently the only operating segment. The Company's principal asset is the Bentley field; a heavy oil field located in the Northern North Sea.

Business model and strategy

The Company's business model operates a small, core team retaining the proprietary knowledge needed to support the future development of the Bentley field, which is supplemented with the services of outside specialist contractor companies and service providers as required.

The Company's strategy is to attract a partner or partners to fund the development of, and operate, the Bentley field.

Business financial review

For the year ended 31 December 2018 the Company reports a loss after tax of $1.93 million (year ended 31 December 2017: profit of $336.79 million). The loss has arisen primarily from professional advisory fees of $0.69 million, expensed staff costs of $0.25 million and interest charges of $0.90 million incurred with respect to the Company's issued Loan Notes.

Net expenditure on advancing the Bentley field development during 2018 was $2.76 million (2017: $4.63 million), which includes $1.49 million of capitalised staff costs in addition to $0.82 million for the annual renewal of the Bentley licence, $0.20 million on seismic data reprocessing, $0.99 million incurred on third party consultants and contractors, offset by a credit of $0.86 million in respect of Research and Development tax credits in the UK.

The Company completed a successful decommissioning programme on the Bentley 9/3b-6 and 9/3b-7 and 7Z wells during the year. The Company no longer has any decommissioning liabilities in respect of its historical offshore drilling activities.

The Company successfully claimed UK Research and Development tax credits during the year ended 31 December 2018 amounting to $0.86 million (2017: $nil). These have been treated as a credit to Exploration and Evaluation assets.

The Company holds the P.1078 licence, containing the Bentley field, which expires on 30 June 2021.

On 25 October 2018 the Company announced amendments to its Working Capital Facility ("WCF") that extended by mutual consent the maturity of the WCF to June 2021 and the facility size from $15 million to $25 million. These new amendments allow for an additional $5.00 million of working capital cash funding to be made available to the Company for drawdown at its discretion. During 2018 a total of $5.90 million new Loan Notes was issued under the WCF, with an associated total finance charge for the year of $0.90 million (2017: $4.25 million new loan notes were issued, with associated finance charge for the period of $0.24 million). The additional funds allow the Company to meet its forecast obligations as they fall due for at least the next twelve months. Under IFRS9, this variation being more than ten per cent of the future cash flows was considered a substantial modification to the total of $8.61 million loan capital balance that existed as at 25 October 2018. Accordingly, under the provisions of IFRS 9 the original loan was considered to be repaid and a new loan for US$8.61 million taken out.

Principal risks and uncertainties

The principal risk factors facing the Company, together with their mitigations, where appropriate, are as follows:

Risk Factor	**Explanation**
Financing	Future field development will depend upon the ability of the Company to secure financing, whether this is by joint venture projects, farm down arrangements, public financing, asset financing or by other means. The Company is undertaking a disciplined approach to re-defining the development concept within strict economic boundaries in order to deliver a commercially attractive development to attract the necessary capital to develop the Bentley field. By using appropriate financial management and cash forecasting, the Company monitors its projected cash requirements on a regular basis.
Exploration and development	The nature of oil exploration is such that there is no assurance that exploration activities will be successful. Industry statistics show that few properties that are explored go on to being fully developed. Operations can also be adversely affected by weather conditions and drilling rig and other operating equipment availability outside the control of the Company. Exploration and development risk is mitigated by a process of detailed subsurface technical analysis using industry professionals, to help identify those prospects with the highest chance of success. Detailed project planning, concept and design engineering and effective cost control all help to mitigate the downside risk of not delivering a project safely, on specification, on time and on budget.
Licensing and consents	The Company is dependent upon the good standing of its oil field asset licence, which is administered by the OGA in the United Kingdom, in order to conduct offshore exploration, appraisal, development and production activity. The licence has terms and conditions, with a defined licence period, and maintenance of the licence is critical to the ability of the Company to continue to conduct its core business. In addition to the licence, the Company requires specific field development consent from the OGA in order to conduct any offshore operations, including drilling and production. The Company maintains regular and constructive dialogue with the OGA, not only for licensing and field development consents, but also for UK oil and gas regulatory matters. The oilfield asset licence for the Company's principal asset, the Bentley field, does not expire until June 2021. All milestones associated with the P.1078 licence were met in full during 2018.
Fiscal and political regime	The decision-making process in the oil and gas industry is focused on long-term field economics, which rely heavily upon a stable fiscal and political regime to provide the necessary confidence in proceeding, or otherwise, with project

sanction. Prevailing rates of taxation and the availability of field allowances can change, which may then change previous oil field sanction decisions. Whilst it is not possible to forecast such changes or the impact these may have, membership of various industry associations ensures that the Company keeps up to date with industry consensus and has the ability to participate in relevant representations.

The announcement during the year ended 31 December 2016 of the decision of the United Kingdom to leave the European Union ("Brexit") brings about uncharted political and fiscal uncertainty. In addition, Brexit has reinvigorated the Scottish devolution movement. With the Company's principal assets being located in Scotland, fiscal and political risk is considered to have increased in recent years. The Company continues to participate in industry consultations and fiscal lobbying where considered appropriate in order to better protect its fiscal and political interests but acknowledges that its powers are limited.

At the date of these financial statements no agreement has yet been reached between the United Kingdom and the European Union on an agreeable mechanism and timetable for the United Kingdom exiting the European Union. Until such time as clarity is provided by conclusions to the Brexit negotiations, political instability within the United Kingdom remains a risk factor to the Company.

Commodity pricing

The Company has no control over the market price of crude oil. Crude oil price forecasts are used in the Company's field economic models to support future investment decision making processes. There is a risk that the crude price models used do not present an accurate reflection of future revenue streams and lead to inappropriate investment decisions being made. The Company uses external pricing models to support the oil price forward curves being used in order to minimise internal bias.

Resource estimation

Oil resource estimation techniques are inherently judgemental and involve a high degree of technical interpretation and modelling techniques. Incorrect resource estimation may result in inappropriate capital investment decisions being made. To mitigate this risk, Company resources have been independently assessed to provide third party assessment of internal estimates.

Dependence on key executives and personnel

The Company's development and future potential are dependent upon the continued services and performance of its senior management and other key personnel. The loss of the services of any of the senior management or key personnel may have an adverse impact on the Company. Executive reward structures are reviewed annually to ensure that there is an appropriate balance of executive reward and retention risk mitigation.

Early stage of development

The Company is subject to certain risks related to the nature of its business in the acquisition, exploitation, development and production of oil reserves and resources and its early stage of development. The Company has no history of earnings from commercial production and there can be no assurance that the

Company's business will be successful or profitable. The Company's strategy is to attract a partner or partners to fund the development of, and operate, the Bentley field. The Company may be subject to growth-related risks, capacity constraints and pressure on its internal systems and controls, particularly given the early stage of the Company's development. The ability of the Company to manage growth effectively will require it to continue to implement and improve its operational and financial systems and to expand, train and manage its employee base. The inability of the Company to deal with this growth could have a material adverse impact on its business, operations and prospects.

Key performance indicators

The Company is considered to be in the appraisal phase of its oil and gas assets and, in the absence of sustained oil production, key performance indicators associated with oilfield production have yet to be established. As a condition of the working capital facility, the Company monitors its expenditure against an approved costs budget on a periodic basis. Current key performance indicators focus upon cashflow management, working capital facility covenant compliance and budget to actual expenditure performance. All working capital facility covenants have been met by the Company during the year ended 31 December 2018 and to the date of these financial statements. The Company continues to adhere to the P.1078 licence conditions and met all P.1078 obligations during the year ended 31 December 2018.

Signed on behalf of the Board,

Director
23 April 2019

Directors' Report

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

Directors

The directors of the Company are shown on page 1.

Indemnification of Directors and Insurance

The Company has granted an indemnity to each of its Directors under which the Company will, to the fullest extent permitted by law and to the extent provided by Company's Articles of Association, indemnify them against all liability, charges, losses and associated costs incurred by them in the execution of their duties. The Company has a Directors' and Officers' Liability Insurance policy in place, details of which are provided to all Directors on an annual basis and to new Directors on appointment.

Results and dividends

The results for the year are set out in the Income Statement on page 12, and an overview of the performance of the Company during the year ended 31 December 2018 is provided in the Strategic Report on pages 2 to 5. The directors do not recommend the payment of a dividend (2017: $nil).

Future Developments

The Company is focussed on seeking an operator and partner or partners to support the development and operation of the Bentley field. The Company continues to maintain its technical work programmes to continue to meet its obligations under its licence.

Going Concern

Existing cash balances together with the remaining drawable funds under the working capital facility provides the Company with liquidity to meet the forecast commitments and obligations of the Company and of the P.1078 Licence for at least the next twelve months from the date of these financial statements. Funds received under the working capital facility can be used solely for approved costs. At the sole discretion of the Company, interest may be settled at the end of each quarter in cash or by payment-in-kind with a coupon of 12% per annum. The Company cannot enter into material financial commitments over and above the approved costs without the prior consent of the consortium of lenders. All working capital facility covenants have been met by the Company during the year ended 31 December 2018 and to the date of these financial statements.

The Company continues to adopt the going concern basis of accounting in preparing the financial statements and these financial statements.

Financial instruments and financial risk management

Details of the use of financial instruments by the company and related matters are contained in Note 16 of the financial statements.

Statement of directors' responsibilities

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRSs as adopted by the European Union, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Directors Statement as to the Disclosure of Information to Auditors

All of the current directors have taken all the steps that they ought to have taken to make themselves aware of any information needed by the Company's auditors for the purposes of their audit and to establish that the auditors are aware of that information. The directors are not aware of any relevant audit information of which the auditors are unaware.

Auditor

The auditor, BDO LLP, has indicated its willingness to continue in office.

On behalf of the Board,

Paul Warwick
Director
23 April 2019

Independent Auditor's Report to the Members of Whalsay Energy Limited

Opinion

We have audited the financial statements of Whalsay Energy Limited (the 'Company') for the year ended 31 December 2018 which comprise the income statement, the statement of comprehensive income, the statement of changes in equity, the statement of financial position, the statement of cash flows and notes to the financial statements, including a summary of significant accounting policies.

The financial reporting framework that has been applied in the preparation of the financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union, 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 state of the Company's affairs as at 31 December 2018 and of the Company's loss for the year then ended;
- the Company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union; 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. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed entities, 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 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.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) we identified, including those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Risk

Carrying value of intangible assets

The Company's intangible assets represent the most significant asset on its statement of financial position. Management and the Directors are required to assess whether there are any potential impairment triggers which would indicate that the carrying value of the assets may not be recoverable. Management and the Board did not identify any impairment triggers (refer Note 8).

Given the materiality of the assets in the context of the Company's balance sheet, and the judgements involved in this area, we consider this to be a key audit matter.

How we addressed the key audit matter in our audit

Our specific audit testing in this regard included:

- We assessed Management's impairment indicator review to establish whether it was performed in accordance with the requirements of the relevant accounting standard.
- In doing so we obtained and read third party documents relating to the licence status and commitments.
- We considered whether there was evidence in the Company's cashflow that funding was available to maintain and continue to spend on the E&E assets.
- We reviewed the economic models prepared by third party management experts. Our work in this regard was completed in order to assess whether there was any evidence in the models of further potential triggers for impairment which had not been previously identified.
- As we reviewed the reports prepared by the third-party management experts, we have considered the expert's independence, competence and objectivity.

Our application of materiality

Component materiality was $1.4 million (2017: $877,000) based on 1.0% of total assets. We applied a specific materiality to the Income Statement of $50,000 being 5% of Operating Loss.

We apply the concept of materiality both in planning and performing our audit, and in evaluating the effect of misstatements. We consider materiality to be the magnitude by which misstatements, including omissions, could influence the economic decisions of reasonable users that are taken on the basis of the financial statements. Importantly, misstatements below these levels will not necessarily be evaluated as immaterial as we also take account of the nature of identified misstatements, and the particular circumstances of their occurrence, when evaluating their effect on the financial statements as a whole.

In performing the audit we applied a lower level of performance materiality in order to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds financial statement materiality. Performance materiality for the financial statements was set 75% (2017: 75%) of financial statement materiality.

We agreed with the audit committee that we would report to the committee all individual audit differences identified during the course of our audit in excess of $30,000 (2017: $18,000).

An overview of the scope of our audit

We performed a full scope audit on the financial statements of the Company. All audit work was undertaken by BDO LLP.

Other information

The Directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

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

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

Matters on which we are required to report by exception

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

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

- adequate accounting records have not been kept by the Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the 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 7, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: 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 our engagement letter dated 30 January 2019. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

BDO LLP

Anne Sayers (Senior Statutory Auditor)
For and on behalf of BDO LLP,
Statutory Auditor, London
23 April 2019

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

Whalsay Energy Limited
For the year ended 31 December 2018

Income Statement

All values stated in $'000s	Note	Year ended 31 December 2018	Year ended 31 December 2017
Decommissioning activities	12	(59)	(1,666)
Corporate restructuring charges	3	-	(1,460)
Administrative expenses		(978)	(755)
Operating loss	3	(1,037)	(3,881)
Release of intercompany debt obligations	4	-	329,554
Release of bond interest obligations	4	-	11,364
Finance expense	13	(898)	(245)
(Loss)/profit before taxation		(1,935)	336,792
Taxation	6	-	-
(Loss)/profit for the year attributable to Equity holders of the Company		(1,935)	336,792
(Loss)/earnings per share attributable to equity holders of the Company:			
- Basic and diluted (in $)	7	(39)	6,736

All results relate to continuing operations.

Statement of Comprehensive Income

All values stated in $'000s	Year ended 31 December 2018	Year ended 31 December 2017
(Loss)/profit for the year	(1,935)	336,792
Total comprehensive (loss)/income for the year	(1,935)	336,792
Attributable to Equity holders of the Company	(1,935)	336,792

The notes on pages 16 to 36 form part of these financial statements.

Whalsay Energy Limited
For the year ended 31 December 2018

Statement of Changes in Equity

All values stated in $'000s	Share Capital	(Accumulated deficit)/surplus	Translation Reserve	Total
At 1 January 2017	85	(329,753)	604	(329,064)
Profit for the year ended 31 December 2017	-	336,792	-	336,792
Total comprehensive income for the year ended 31 December 2017	-	336,792	-	336,792
At 1 January 2018	**85**	**7,039**	**604**	**7,728**
Loss for the year ended 31 December 2018	-	(1,935)	-	(1,935)
Total comprehensive loss for the year ended 31 December 2018	**-**	**(1,935)**	**-**	**(1,935)**
At 31 December 2018	**85**	**5,104**	**604**	**5,793**

The notes on pages 16 to 36 form part of these financial statements.

Whalsay Energy Limited
For the year ended 31 December 2018

Statement of Financial Position

All values stated in $'000s	Note	31 December 2018	31 December 2017
Assets			
Non-current assets			
Intangible assets	8	162,388	159,633
Plant and equipment	9	42	8
Total non-current assets		162,430	159,641
Current assets			
Receivables	10	94	47
Cash and cash equivalents	16b	771	1,219
Total current assets		865	1,266
Total assets		163,295	160,907
Liabilities			
Current liabilities			
Trade and other payables	11	1,370	1,279
Intercompany loan payable	11	145,739	145,739
Decommissioning provision	12	-	1,666
Total current liabilities		147,109	148,684
Non-current liabilities			
Loan notes	13	10,393	4,495
Total non-current liabilities		10,393	4,495
Total liabilities		157,502	153,179
Net assets		5,793	7,728
Equity			
Share capital	17	85	85
Accumulated surplus	18	5,104	7,039
Translation reserve	18	604	604
Total equity		5,793	7,728

The notes on pages 16 to 36 form part of these financial statements. These financial statements were approved by the Board of Directors and authorised for issue on 23 April 2019 and were signed on its behalf by:

(Director)　　　　(Director)

Whalsay Energy Limited
For the year ended 31 December 2018

Statement of Cash Flows

All values stated in $'000s	Note	Year ended 31 December 2018	Year ended 31 December 2017
Cash flows used in operating activities			
(Loss)/profit for the year before tax		**(1,935)**	336,792
Adjustment for release of intercompany debt	4	**-**	(329,554)
Adjustment for release of bond interest	4	**-**	(11,364)
Adjustment for payment-in-kind interest	15	**898**	245
Adjustment for foreign exchange		**(11)**	27
Adjustment for loss on disposal of plant and equipment	3	**7**	-
Movement in working capital			
- Receivables	10	**8**	28
- Trade and other payables	11	**(1,584)**	554
Net cash flow used in operations		**(2,617)**	(3,272)
Cash flow from investing activities			
Payments to acquire intangible assets	8	**(3,555)**	(4,021)
R&D tax credits		**855**	-
Receipts from sale of fixed assets		**1**	2
Payments to acquire plant and equipment	9	**(42)**	-
Net cash flow used in investing activities		**(2,741)**	(4,019)
Cash flow from financing activities			
Cash receipts from Loan Notes issued	15	**5,000**	4,250
Payments made on behalf of the parent company	20	**(101)**	(288)
Intercompany funding received from the parent company	20	**-**	229
Net cash flow from financing activities		**4,899**	4,191
Net decrease in cash and cash equivalents	16	**(459)**	(3,100)
Cash and cash equivalents at beginning of year		**1,219**	4,346
Effect of foreign exchange rate changes		**11**	(27)
Cash and cash equivalents at end of year	16b	**771**	1,219

The notes on pages 16 to 36 form part of these financial statements.

Notes to the financial statements

1 Accounting Policies

Basis of preparation

The Company is registered in England and Wales and domiciled in the United Kingdom. The principal accounting policies adopted in the preparation of the financial statements are set out below.

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and International Financial Reporting Interpretations Committee ("IFRIC") interpretations issued by the International Accounting Standards Board ("IASB"). The financial statements have also been prepared in accordance with IFRS as adopted by The European Union and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS. The financial statements have been prepared on the historical cost basis.

Going concern

Existing cash balances together with the remaining drawable funds under the working capital facility provides the Company with liquidity to meet the forecast commitments and obligations of the Company and of the P.1078 Licence for at least the next twelve months from the date of these financial statements. Funds received under the working capital facility can be used solely for approved costs. At the sole discretion of the Company, interest may be settled at the end of each quarter in cash or by payment-in-kind with a coupon of 12% per annum. The Company cannot enter into material financial commitments over and above the approved costs without the prior consent of the consortium of lenders. All working capital facility covenants have been met by the Company during the year ended 31 December 2018 and to the date of these financial statements.

Accordingly, the Company continues to adopt the going concern basis of accounting in preparing the financial statements.

New accounting standards adopted during the year

Certain new standards, amendments and interpretations endorsed by the International Accounting Standard Board ("IASB") and the International Financial Reporting Interpretations Committee ("IFRIC") were effective for accounting periods beginning on or after 1 January 2018. These include 'IFRIC 22: Foreign Currency Transactions and Advance Consideration', 'Amendments to IAS 40: Transfers of Investment Property', 'Amendments to IFRS 2: Classification and Measurement of Share-based Payment Transactions', 'Annual Improvements to IFRS Standards 2014-2016', 'Amendments to IFRS 4: Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts', 'Clarifications to IFRS 15: Revenue From Contracts With Customers', 'IFRS 9: Financial Instruments' and 'IFRS 15: Revenue From Contracts With Customers, including amendments to IFRS 15'.

IFRS 9 'Financial Instruments' came into effect from 1 January 2018 and replaced IAS 39 with the aim of improving forward transparency with respect to financial instruments by addressing recognition, classification and measurement, impairment and hedge accounting. The Company's principal financial assets comprise other receivables, deposits and cash. All of these financial assets continue to be classified and measured at amortised cost. The Company's principal financial liabilities comprise loan notes, intercompany, trade and other payables. All of these financial liabilities continue to be classified and measured at amortised cost. Under IFRS 9, a variation to the Note Purchase Agreement (see Note 13) was identified as being more than ten per cent of the future cash flows and, therefore, considered to be a substantial modification to the $8.61 million of loan note capital balance as at the date of the modification to the Note Purchase Agreement of 25 October 2018. Accordingly, under the provisions of IFRS 9 the loan note capital balance of $8.61 million was considered to have been repaid and a new loan note capital balance of $8.61 million issued under the revised Note Purchase Agreement. As the Company's financial assets comprise cash balances and office rent deposits, there are no material financial assets subject to the expected credit loss model defined within IFRS 9. The level of credit risk that the Company is exposed to has not given rise to material adjustments arising from the implementation of the IFRS 9 expected credit loss model.

The Company has reviewed and considered all other new available standards, amendments and interpretations and the adoption of these new accounting standards had no material impact on the previously reported results or financial position of the Company.

New standards and interpretations not yet applied

Certain new standards and interpretations issued by the IASB and endorsed by the European Union are effective for future periods and for which the Company has not early adopted. None of these are expected to have a material effect on the reported results or financial position of the Company.

The future adoption of 'IFRS 16: Leases", expected from 1 January 2019, provides for a new model of lessee accounting in which all leases, other than short-term and small-ticket-item leases, will be accounted for by the recognition on the balance sheet of a right-to-use asset and an associated lease liability, with the subsequent amortisation of the right-to-use asset over the lease term. However, as the Company currently has no leases other than short-term, the expected impact of the adoption of IFRS 16 is immaterial.

New standards and interpretations which have been issued by the IASB but have yet to be endorsed by the European Union have not been adopted in these financial statements. The Company has reviewed and considered these new standards and interpretations and none of these are expected to have a material effect on the reported results or financial position of the Company.

Finance income

Finance income is recognised on an accruals basis and is disclosed separately on the face of the Income Statement.

Taxation

The total tax expense represents the sum of current and deferred tax. Current tax is based on the taxable result for the period. The taxable result may differ from the net result as reported in the Income Statement as it may exclude certain items of income or expense that are taxable or deductible in other periods and it further excludes items that are never taxable or deductible.

The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted at the date of the Statement of Financial Position.

Deferred tax assets and liabilities are recognised where the carrying amount of an asset or liability in the Statement of Financial Position differs to its tax base.

Recognition of deferred tax assets is restricted to those instances where it is probable that taxable profit will be available against which the difference can be utilised. The amount of the asset or liability is determined using tax rates that have been enacted or substantively enacted at the date of the Statement of Financial Position and are expected to apply when the deferred tax liabilities/assets are settled/recovered. Deferred tax assets and liabilities are offset when the Company has a legally enforceable right to offset current tax assets and liabilities and the deferred tax assets and liabilities relate to taxes levied by the same tax authority on either:

- The same taxable group company; or
- Different group entities which intend either to settle current tax assets and liabilities on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax assets or liabilities are expected to be settled or recovered.

Operating leases

All leases are treated as operating leases. Rental premiums are charged to the Income Statement or capitalised within E&E assets depending upon the nature of the lease on a straight-line basis over the term of the lease. Reverse premiums or other such incentives to enter into operating lease agreements are released to the Income Statement or as a credit to E&E assets over the lease term.

Foreign currency

The functional and presentational currency of the Company is US Dollars. Transactions entered into by the Company in a currency other than the functional currency are recorded at the rates ruling when the transactions occur. Foreign currency monetary assets and liabilities are translated at the rates ruling at the date of the Statement of Financial Position.

Exchange differences arising on the retranslation of unsettled monetary assets and liabilities are recognised immediately in the Income Statement. Foreign currency exchange gains and losses arising from the retranslation of financial instruments are separately disclosed in the finance section of the Income Statement, with all other foreign exchange gains and losses disclosed within net administrative expenses.

Financial assets

The Company's financial assets are valued at amortised cost and comprise the following:

Contractual rights – these comprise other receivables and office deposits and are measured on initial recognition at transaction price and are subsequently measured at amortised cost. Appropriate allowances for estimated irrecoverable amounts are recognised in profit or loss using an expected credit losses approach when required.

Cash and cash equivalents – comprise cash on hand and cash on deposit accessible without penalty and are subject to an insignificant risk of changes in value.

Intangible fixed assets – Exploration and Evaluation ("E&E") assets

Capitalisation

Certain costs (other than payments to acquire the legal right to explore) incurred prior to acquiring the rights to explore are charged directly to the Income Statement. All costs incurred after the rights to explore an area have been obtained, such as geological and geophysical costs and other direct costs of exploration (drilling, trenching, sampling and technical feasibility and commercial viability activities) and appraisal, which may include certain payroll costs and associated employee share-based payment charges, are accumulated and capitalised as intangible E&E assets.

E&E costs are not amortised prior to the conclusion of appraisal activities. At completion of appraisal activities if technical feasibility is demonstrated and commercial reserves are discovered then, following development sanction, the carrying value of the relevant E&E asset will be reclassified as a development and production asset, but only after the carrying value of the relevant E&E asset has been assessed for impairment and, where appropriate, its carrying value adjusted. If, after completion of appraisal in an area, it is not possible to determine technical feasibility and commercial viability, or if the legal right to explore expires, or if the Company decides not to continue exploration and evaluation, the carrying value of the E&E asset is written off to the Income Statement in the period the relevant events occur.

The annual licence fees charged by the OGA in respect of the Company's oilfield assets, which enable the Company to explore, appraise, develop and exploit natural resources within its licensed Blocks, are fully capitalised to E&E assets as incurred as no credits are available for pro-rata periods.

Borrowing costs

Borrowing costs incurred specifically for the appraisal and development of the Company's oilfield assets are expensed to the Income Statement on an accruals basis.

Impairment

If, and when, facts and circumstances indicate that the carrying value of an E&E asset may exceed its recoverable amount an impairment review is performed. Impairment tests are performed when indicators, as described in IFRS 6, are identified. Such indicators may include a lack of development funding or a short remaining term on an oilfield licence. If such indicators are identified an impairment review is carried out by identifying groups of assets, within the E&E asset, which together form the Cash Generating Unit ("CGU") and comparing the carrying value of the CGU with its recoverable amount and any resulting impairment loss is written off to the Income Statement. The recoverable amount of the CGU is determined as the higher of its fair value less costs to sell, and its value in use. Impairment charges may be reversed in future periods if future recoverable amount assessments determine that impairment charges or the reversal of historic impairments are no longer appropriate.

Research and Development Credits

Research and Development ("R&D") credits arising in the United Kingdom under Corporation Tax Act 2009 Section 1308 claims are recognised upon success as credits against the Company's E&E assets and included within Net Additions. Successful Section 1308 R&D credits are considered to be UK Government grants arising as a direct result of the Company's investment in its E&E assets and for which no further obligation exists upon the Company. The offset of the R&D credits against E&E assets thereby allows for their benefit to be derived over the future life of the Company's production assets.

Plant and equipment

Plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items. All repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Depreciation on assets is calculated using the straight-line method to allocate their cost over their estimated useful life, as follows:

- Furniture and fittings — 3-5 years
- Computing equipment — 1-3 years

Assets capitalised not yet available for use are not depreciated but are held at the lower of cost and net realisable value.

In the event that an asset is disposed of, all associated acquisition costs to the date of disposal and accumulated depreciation recognised to date are written off. Any proceeds from sale are offset to arrive at a net gain or loss on disposal reported in the Income Statement.

At each balance sheet date, the Company reviews the carrying amounts of its plant and equipment to determine if there is any indication that the assets have suffered impairment. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. In the event that an asset is identified as being impaired, impairment charges are expensed to the Income Statement and associated cost and accumulated depreciation is written off.

Financial liabilities

The Company's financial liabilities comprising trade payables, intercompany payables, Loan Notes and other payables. In the prior period financial liabilities also included bonds and accrued interest on bonds. Financial liabilities are recognised on initial recognition at fair value less associated transaction costs and are subsequently measured at amortised cost.

Decommissioning liabilities

Future decommissioning liabilities are recognised when the Company's obligation to decommission an appraisal, development or producing well crystallises. This obligation arises at the earlier of a formal request from the OGA to decommission an oilfield well or one month prior to expiry of an oilfield production licence. The amount recognised in the estimated cost of decommissioning, discounted to its net present value, is re-assessed each year in accordance with local conditions and requirements. Changes in the estimates of commercial reserves or de-commissioning cost estimates are dealt with prospectively by recording an adjustment to the decommissioning provision.

Decommissioning charges are expensed to the Income Statement, with an associated liability recognised on the Statement of Financial Position, within either current or non-current liabilities depending upon the expected timing of decommissioning work programmes.

Working Capital Facility - Loan notes

Interest-bearing loans and borrowings are recognised initially at fair value less attributable transaction costs. Loans are subsequently carried at amortized cost using the effective interest method.

Provisions and contingent liabilities

Provisions for future liabilities are recognised when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the end of the reporting period. The discount rate used to determine the present value is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Contingent liabilities are recognised when the Company considers that a legal or constructive obligation is more likely than not to arise in the future, depending on the outcome of an uncertain future event. A contingent liability is recorded where it is probable that an outflow of resources will be required to settle the future obligation and when the amount can be reasonably estimated. Contingent liabilities are measured at the present value of management's best estimate, similar to that for provisions.

Share capital

Financial instruments issued by the Company are classified as equity only to the extent that they do not meet the definition of a financial liability or financial asset. The Company's ordinary shares are classified as equity instruments.

Critical accounting estimates and judgements

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

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

The Company does not have any key assumptions concerning the future, or other key sources of estimation uncertainty in the reporting period that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

(a) Impairment of Exploration and Evaluation assets

Exploration and Evaluation assets are assessed for impairment when circumstances suggest that the carrying value may exceed its recoverable value. This assessment involves judgement as to whether these circumstances are considered to be an indicator of impairment. In the event of any such indication, an impairment test is carried out and, if necessary, an impairment charge is made representing the surplus of capitalised cost over estimated recoverable value of the related commercial oil reserves. Estimated recoverable value is based upon anticipated discounted pre-tax net cash flows attributable to the Company's asset base. An impairment charge was recognised in 2016 (see Note 8). Based on a third-party assessment of the Company's oil reserves and resources, together with the strengthening of the oil price, management have concluded that there are no indicators of impairment or the reversal of historic impairments as at 31 December 2018.

(b) Accounting treatment of R&D credits

Successful R&D credits are considered to be UK Government grants arising as a direct result of the Company's investment in its E&E assets and for which no further obligation exists upon the Company. The offset of the R&D credits against E&E assets thereby allows for their benefit to be derived over the future life of the Company's production assets.

2 Segment Information

The Company only operates in a single business and geographical segment. The reporting of this segment is in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker has been identified as the Board of Directors. The Company's single line of business is the appraisal and development of oil and gas reserves and the geographical segment in which it currently operates is the North Sea.

Financial information is presented to management in accordance with the measurement principles of IFRS. There are no adjustments or eliminations made in preparing the Company's financial statements from the reportable segment revenues, profit or loss, assets and liabilities.

3 Operating loss

The operating loss on ordinary activities is stated after charging/(crediting) the following:

	Year ended 31 December 2018 $'000s	Year ended 31 December 2017 $'000s
Corporate restructuring charges	-	1,460
Loss on disposal of fixed assets	7	-
Foreign exchange (gains)/losses	(11)	27
Auditors' remuneration	51	47

The Company incurred total charges in respect of property leases in the current year of $0.08 million (year ended 31 December 2017: $0.14 million). These have all been capitalised to E&E assets in accordance with the Company's accounting policy.

The costs associated with the restructuring of the Company totaling $1.46 million in the year ended 31 December 2017 have been expensed to operating loss. These charges included professional corporate advisory, tax and legal fees. There were no such equivalent fees incurred in the year ended 31 December 2018.

4 Company Restructuring Event of 2017

On 30 June 2017 the Company completed a restructuring process. Immediately prior to the restructuring, the Company was released in its entirety from its liabilities in respect of accrued interest on the Company's $135 million of senior secured bonds (the "Bonds") since the date of default of 31 October 2016 totalling $11.36 million by the holders of the Bonds (the "Bondholders"). In addition, the former immediate parent company, Xcite Energy Limited, agreed to release the Company from its intercompany net debt liabilities totalling $329.55 million. The release of the Company from interest accrued under the Bonds and the release of the intercompany net debt liabilities was credited to the Income Statement in accordance with IAS 39.

The entire share capital of the Company was acquired by Whalsay Energy Holdings Limited, a company wholly-owned by the former Bondholders to the Company on 30 June 2017.

5 Staff Costs and Directors' Emoluments

a) The average number of persons employed by the Company (including Executive Directors) during the year was as follows:

	31 December 2018	31 December 2017
Technical and administration	9	10

The aggregate payroll costs of staff and Executive Directors were as follows:

	Year ended 31 December 2018 $'000s	Year ended 31 December 2017 $'000s
Wages and salaries	**1,540**	1,529
Compensation for loss of office	**-**	82
Social security costs	**196**	198
Company defined contribution pension charges	**46**	24
	1,782	1,833

Of the total payroll costs, a value of $1.49 million has been capitalised within E&E asset additions in the year ended 31 December 2018 ($1.46 million for the year ended 31 December 2017). The balance of payroll costs has been expensed within Other Expenses in the Income Statement in each relevant year.

b) Executive Directors' emoluments

	Year ended 31 December 2018 $'000s	Year ended 31 December 2017 $'000s
Wages and salaries	**402**	745
Compensation for loss of office	**-**	74
Social security costs	**54**	99
Company defined contribution pension charges	**-**	9
	456	927

Company pension contributions were paid to a total of nil Directors during the year (2017: 5).

The emoluments of the highest paid Director during the year were as follows:

	Year ended 31 December 2018 $'000s	Year ended 31 December 2017 $'000s
Wages and salaries	**402**	189
Compensation for loss of office	**-**	74
Social security costs	**54**	23
Company defined contribution pension charges	**-**	1
	456	287

6 Taxation

The tax assessed for the year is different to the standard rate of corporation tax in the UK. The differences are explained below.

	Year ended 31 December 2018 $'000s	Year ended 31 December 2017 $'000s
(Loss)/profit on ordinary activities before tax	**(1,935)**	336,792
(Loss)/profit on ordinary activities multiplied by the combined rate of corporation tax in the UK of 40%	(774)	134,717
Effects of:		
Income not taxable	-	(136,364)
Effects of R&D tax credit claim	72	-
Expenses not deductible for tax purposes	-	597
Ring-fence expenditure supplement claim	(28,381)	(25,258)
Losses not recognised	29,083	26,308
Total tax charge for the year	**-**	-

The Company is considered to be a company which profits from oil extraction and oil rights in the UK and the UK Continental Shelf and is, therefore, subject to corporation tax on taxable profits at a rate of 30% or 19% where the profits fall within the limit of the small companies' rate. The rate of corporate tax at 30% combined with the Supplementary Charge at 10% gives an effective headline rate of UK tax for upstream oil activity of 40%.

7 (Loss)/earnings per Share

The basic (loss)/earnings per share ("LPS"/"EPS") is calculated by dividing the (loss)/profit attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the year. The diluted LPS/EPS is calculated by dividing the (loss)/profit attributable to ordinary shareholders by the weighted average number of potentially outstanding ordinary shares, which takes into account issued ordinary shares in addition to all outstanding potentially dilutive instruments that may yet be converted into ordinary shares in the Company in the future. The Company currently has no potentially dilutive financial instruments in issue. When a loss for the year is presented the calculation of the diluted LPS is anti-dilutive, and, therefore, under IAS 33 'Earnings per Share' the potential ordinary shares are ignored for the purposes of calculating LPS.

The calculation of the basic and diluted (loss)/earnings per share for the year is based on the following values:

	Year ended 31 December 2018	Year ended 31 December 2017
(Loss)/profit in financial year (in $'000s)	**(1,935)**	336,792
Weighted average number of shares in issue:		
- Basic and fully diluted	**50,000**	50,000
Loss per share in dollars:		
- Basic and diluted LPS/EPS	**(39)**	6,736

8 Intangible Assets

Cost	**Oilfield Licences $'000s**	**Exploration and Appraisal Costs $'000s**	**Total Intangible Assets $'000s**
Cost as at 1 January 2017	6,417	486,613	493,030
Additions	839	3,794	4,633
Cost as at 31 December 2017	7,256	490,407	497,663
Net additions	823	1,932	2,755
Cost as at 31 December 2018	**8,079**	**492,339**	**500,418**

Amortisation and Impairment			
As at 1 January 2017	-	(338,030)	(338,030)
As at 31 December 2017	-	(338,030)	(338,030)
As at 31 December 2018	**-**	**(338,030)**	**(338,030)**

Net Book Value			
As at 1 January 2017	6,417	148,583	155,000
As at 31 December 2017	7,256	152,377	159,633
As at 31 December 2018	**8,079**	**154,309**	**162,388**

The costs associated with the appraisal of the Bentley field and its surrounding prospects have been capitalised in accordance with the Company's accounting policy in Note 1. Net Additions include a charge of \$1.49 million (2017: \$1.46 million) in respect of capitalised payroll costs and a credit of \$0.86 million (2017: \$nil) in respect of R&D tax credits.

Impairment Review

In accordance with IFRS 6 an impairment review of the Company's E&E asset carrying value is conducted when management identify potential impairment triggers. In 2016, management considered that Company and industry circumstances justified an impairment charge of \$338.03 million for the year ended 31 December 2016. No adjustments to the impairment provision were made in the years ended 31 December 2017 or 31 December 2018.

Management have considered the current carrying value of its E&E assets at 31 December 2018 by conducting an impairment trigger assessment, which considered the wider economics impacting the estimated future revenue and expenditure streams, and by assessing other factors, such as time left to maturity on the licence, prevailing and forecast Brent crude prices and market conditions. As further funding is required to develop the asset, management did not consider it appropriate to reverse any of the previous impairment charges taken nor have they identified any possible trigger events that may suggest a further impairment charge for the current year is appropriate. The situation will continue to be monitored by management and adjustments made if future events indicate that further adjustments are appropriate.

9 Plant and Equipment

	Computing equipment	Furniture and fittings	Total
Cost	**\$'000s**	**\$'000s**	**\$'000s**
As at 1 January 2017	663	157	820
Disposals	(383)	(125)	(508)
As at 31 December 2017	280	32	312
Additions	42	-	42
Disposals	(171)	(31)	(202)
As at 31 December 2018	**151**	**1**	**152**
Accumulated Depreciation			
As at 1 January 2017	645	154	799
Depreciation charge	10	1	11
Disposals	(382)	(124)	(506)
As at 31 December 2017	273	31	304
Depreciation charge	1	-	1
Disposals	(165)	(30)	(195)
As at 31 December 2018	**109**	**1**	**110**

Cost	Computing equipment $'000s	Furniture and fittings $'000s	Total $'000s
Net Book Value			
As at 1 January 2017	18	3	21
As at 31 December 2017	7	1	8
As at 31 December 2018	**42**	**-**	**42**

10 Receivables

	31 December 2018 $'000s	31 December 2017 $'000s
Indirect taxes receivable	**30**	28
Deposits	**9**	19
Intercompany account receivable	**55**	-
	94	47

11 Trade and Other Payables

	31 December 2018 $'000s	31 December 2017 $'000s
Trade payables	**119**	148
Social security and other taxes payable	**92**	69
Indirect taxes payable	**-**	11
Accruals and other payables	**1,159**	1,005
Intercompany account payable	**-**	46
Intercompany loan payable	**145,739**	145,739
	147,109	147,018

The intercompany loan balance in the current year represents a secured liability owing to Whalsay Energy Holdings Limited and is payable on demand and bears no interest. Security is granted via a fixed and floating charge over the Company's assets.

12 Decommissioning Provision

As an obligation of the Bentley field licence granted to the Company in June 2017, the Company made a provision during 2017 for a decommissioning programme in respect of the 9/3b-6 and 9/3b-7 & 7Z wells previously drilled on the Bentley field. The provision of $1.67 million was released during 2018 as expenditure was incurred on the decommissioning programme that was successfully completed by July 2018.

13 Loan Notes

	31 December 2018 $'000s	31 December 2017 $'000s
12% loan notes in issue	**10,393**	4,495

The Company has a total of $25.00 million of loan notes listed on the Cayman Stock Exchange, of which $14.61 million are treasury, non-interest bearing and are held by the Company. The issued balance of $10.39 million is interest-bearing at 12% per annum and held by various noteholders.

A total of $15.00 million of the listed loan notes represent financial instruments issued as part of a working capital facility (the "WCF") originally entered into on 21 June 2017 and available to the Company for periodic drawdown to meet approved costs of the Company as they fall due. Approved costs are based on a pre-approved budget of costs agreed between the Company and its lenders. The balance of $10.00 million of listed loan notes will enable the Company to issue new loan notes, at its sole discretion, to settle interest falling due under the WCF by way of payment-in-kind.

The working capital facility has various conditions attached, including, but not restricted to, the approval of the working capital budget with the consortium of lenders and for the Company to provide periodic financial information and a reconciliation of expenditure to the approved budgeted costs.

The Company issued a total of $5.90 million of new loan notes in the year ended 31 December 2018, representing drawdowns of $5.00 million plus new notes issued in respect of payment-in-kind interest of $0.90 million. In the year ended 31 December 2017, the Company issued $4.49 million of new loan notes, representing an initial facility drawdown of $4.25 million plus new notes issued in respect of payment-in-kind interest of $0.24 million. Interest under the WCF is expensed to the Income Statement on an accruals basis.

On 25 October 2018 the Company announced amendments to the WCF that extended by mutual consent the maturity of the WCF to June 2021 and the facility size from $15 million to $25 million. These new amendments allow for an additional $5.00 million of committed working capital cash funding to be made available to the Company for drawdown at its discretion whilst extending the future capacity of the WCF by $10 million. These amendments were considered to be a substantial modification to the $8.61 million loan note capital balance existing at that time. Accordingly, under the provisions of IFRS 9 the loan note capital balance of $8.61 million was considered to have been repaid and a new loan note capital balance of $8.61 million issued under the revised Note Purchase Agreement.

The facility has a revised maturity date of 30 June 2021 with total remaining committed funds available from the consortium of lenders to the Company of $5.75 million as at 31 December 2018 (2017: $5.75 million).

14 Deferred Tax

There is a deferred tax liability of $48.10 million (2017: $48.89 million) comprising temporary differences arising from tax relief claimed for fixed asset expenditure in the UK. There are deferred tax assets of $300.04 million (2017: $264.37 million) arising on UK tax losses. The deferred tax liability has been fully offset by the deferred tax assets, leaving an unrecognised deferred tax asset balance of $251.94 million (2017: $215.48 million). The Company has elected not to recognise deferred tax assets until such time as the Company achieves sustained commercial production from its oilfield assets.

15 Notes to the Cash Flow Statement

Analysis of Changes in Net Debt:

	31 December 2018 Intercompany $'000s	31 December 2018 Loan Notes $'000s	**31 December 2018** **Totals** **$'000s**
As at 1 January 2018	(145,785)	(4,495)	**(150,280)**
Cashflows:			
Intercompany settlements	101	-	**101**
Loan Note drawdowns	-	(5,000)	**(5,000)**
Non-cashflows:			
Interest-in-kind	-	(898)	**(898)**
Derecognition of 12% Loan Notes	-	8,605	**8,605**
Re-recognition of 12% Loan Notes	-	(8,605)	**(8,605)**
As at 31 December 2018	(145,684)	(10,393)	**(156,077)**

	31 December 2017 Intercompany $'000s	31 December 2017 Bonds $'000s	31 December 2017 Loan Notes $'000s	**31 December 2017 Totals $'000s**
As at 1 January 2017	(329,659)	(157,103)	-	**(486,762)**
Cashflows:				
Intercompany settlements	59	-	-	**59**
Loan Note drawdowns	-	-	(4,250)	**(4,250)**
Non-cashflows:				
Debt waivers	183,815	157,103	-	**340,918**
Interest-in-kind	-		(245)	**(245)**
As at 31 December 2017	(145,785)	-	(4,495)	**(150,280)**

16 Financial Instruments

The Company's principal financial instruments are other receivables, trade and other payables, deferred income, loan notes, intercompany payables, Bonds and cash, which are denominated in various currencies. The main purpose of these financial instruments is to finance the Company's ongoing operational requirements.

The Company does not currently trade in derivative financial instruments. The principal financial risks faced by the Company are liquidity, credit risk, foreign currency and interest rate risk. Policies for the management of these risks, which have been consistently applied throughout the year, are shown below.

Non-market risk

a) Credit risk

Company management has a responsibility to minimise the risk of default on credit advanced to customers and on deposits and advance payments held by suppliers. Deposits held by suppliers comprise office rent deposits recorded as receivables and, as such, are regarded as low risk. Company management is satisfied that any credit risk has been minimised.

Credit risk also arises from cash and cash equivalents and deposits held by banks and financial institutions. To minimise the credit risk on banks and financial institution deposits, only independently rated parties with a minimum credit rating of "A-" grade or higher are used by the Company to hold such deposits.

b) Liquidity risk

The Company has responsibility for reducing exposure to liquidity risk and for ensuring that adequate funds are available to meet anticipated requirements. The Company's objective is to ensure that sufficient liquid resources are available to meet its obligations on time. Liquidity risk is managed by forecasting operational requirements and financial commitments. It operates according to the policies and guidelines established by the Board.

The following tables set out the contractual maturities (representing undiscounted contractual cash flows) of the Company's financial assets and financial liabilities.

	Carrying Amount	
	31 December 2018 $'000s	31 December 2017 $'000s
Financial assets – cash and receivables		
Cash and cash equivalents	**771**	1,219
Receivables (current)	**9**	19
Intercompany receivables (current)	**55**	-
	835	1,238
Financial liabilities – measured at amortised cost		
12% Loan Notes (non-current)	**10,393**	4,495
Intercompany loan payable (current)	**145,739**	145,739
Intercompany payables (current)	**-**	46
Payables (current)	**304**	552
	156,436	150,832

Management believes that as all current financial instruments, except for Loan Notes, are short term, the fair values for all such items equate to their carrying amount. The accounting policies for financial assets and financial liabilities are disclosed in Note 1.

The Loan Notes represent the undiscounted contractual cash flows, being the facility drawdowns and Loan Notes issued in respect of payment-in-kind interest, as further discussed in Note 13.

c) Capital disclosures

The Company considers its capital to comprise its ordinary share capital, the working capital facility and accumulated surplus.

In managing its capital, the Company's primary objective is to ensure preservation of capital and ultimately capital growth for its equity shareholders. In order to achieve this objective, the Company seeks to balance risks and returns at an acceptable level and also to maintain a sufficient funding base to enable the Company to meet its working capital and strategic investment needs. In making decisions to adjust its capital structure to achieve these aims, the Company considers not only its short-term position but also its long-term operational and strategic objectives.

As a condition of the working capital facility, the Company monitors its expenditure against an approved costs budget on a periodic basis and provides periodic financial statements. All working capital facility covenants have been met by the Company during the year ended 31 December 2018 and to the date of these financial statements.

Market risk

d) Interest rate and foreign currency risks

The currency and interest profile of the Company's financial assets and liabilities are as follows:

	Fixed Rate Liabilities		**Interest Free Liabilities**	
	31 December 2018 $'000s	31 December 2017 $'000s	**31 December 2018 $'000s**	31 December 2017 $'000s
Sterling	**-**	-	**207**	132
US Dollar	**10,393**	4,495	**145,836**	146,205
	10,393	4,495	**146,043**	146,337

	Floating Rate Assets		**Interest Free Assets**	
	31 December 2018 $'000s	31 December 2017 $'000s	**31 December 2018 $'000s**	31 December 2017 $'000s
Sterling	**85**	246	**9**	20
US Dollar	**686**	972	**-**	-
	771	1,218	**9**	20

The Company is not exposed to significant interest rate or foreign currency exchange risk due to the composition of its financial assets and financial liabilities, together with a climate of sustained low UK and US Federal base interest rates. As such, estimated variances from applying interest rate and foreign currency exchange risk sensitivity would be not material.

Sterling floating rate assets earn interest at rates linked to the Bank of England Base Rate, with higher rates of return being achieved on deposits placed on longer maturities. The Company currently earns no interest on Sterling balances. At 31 December 2018 the weighted average rate of interest being earned on Sterling deposits was approximately nil% (2017: nil %).

At 31 December 2018 the weighted average rate of interest being earned on US deposits was nil% (2017: nil %).

Cash deposits are only kept with banks with "A-" rating or better. The policy of the Company is to ensure that all cash balances earn a market rate of interest and that interest rate exposures are regularly reviewed and managed.

Foreign currency risk arises where purchase transactions are undertaken in a currency other than US Dollars (transactional risk). The Company is exposed to exchange rate movements in Pounds Sterling. During well drilling programmes the Company aligns its expected future foreign expenditure with the necessary foreign currency cash balances, in effect creating a natural hedge. The Company will continue to monitor its exposure to such foreign currency risks and will manage future risks using derivative financial instruments as considered appropriate.

(e) Foreign exchange rate sensitivity analysis

Foreign exchange rate sensitivity analysis has been determined based on the exposure to financial instruments denominated in currencies ("transactional currencies") other than the functional currency of US Dollars (the "base currency") as at the date of the Statement of Financial Position.

Based on the Company's financial instruments at the Statement of Financial Position date, had the base currency been stronger than the transactional currencies by 2% then the Company would have reported an estimated additional unrealised exchange gain in the Income Statement of $3,423 (year ended 31 December 2017; the Company would have reported an estimated additional unrealised exchange gain in the Income Statement of $1,962). Had the base currency been weaker than the transactional currencies by 2% then the Company would have reported an estimated additional unrealised exchange loss in the Income Statement of $3,562 (year ended 31 December 2017; the Company would have reported an estimated additional unrealised exchange loss in the Income Statement of $2,042).

(f) Interest rate sensitivity analysis

Interest rate sensitivity analysis has been determined based on the exposure to interest rates for financial instruments during the year.

Based on the Company's cash and interest-earning deposit balances during the year, if interest rates had been 0.5% higher and all other variables were held constant, the Company's loss for the year ended 31 December 2018 would increase by an estimated $6,875 (year ended 31 December 2017; the Company's profit would increase by an estimated $13,615). As the Company has no interest earnings in the year, had interest rates been 0.5% lower and all other variables were held constant, the Company's loss for the year ended 31 December 2018 would remain unchanged (year ended 31 December 2017; the Company's profit would remain unchanged).

17 Share Capital

	31 December 2018 $'000s	31 December 2017 $'000s
Authorised		
- 50,000 Ordinary shares of £1 each	**85**	85
Issued and fully paid up		
- 50,000 Ordinary shares of £1 each	**85**	85

18 Reserves

The following explains the nature and purpose of each reserve within owners' equity:

- Accumulated surplus: cumulative (losses)/profits recognised in the Statement of Comprehensive Income less cumulative losses and distributions made.

- Translation Reserve: represents the cumulative exchange differences that arose on the historical translation of functional to presentational currency.

19 Commitments and Contingencies

At 31 December 2018 the Company had minimum lease commitments under non-cancellable operating leases expiring as follows:

	31 December 2018 $'000s	31 December 2017 $'000s
Within one year	**10**	23

20 Related Parties and Ultimate Parent Undertaking

The immediate and ultimate parent undertaking and controlling party is Whalsay Energy Holdings Limited ("WEHL"). WEHL is a company incorporated in the Cayman Islands, whose registered office is at Clifton House, 75 Fort Street, PO Box 1350, Grand Cayman KY1-1108, Cayman Islands.

In line with IAS 24, the Company defines related parties as:

- The Company's parent company WEHL and its Directors;
- The Company's Directors and key management; and
- Companies in which the Directors exercise significant influence.

The Executive Directors have received remuneration, details of which are given in Note 5 to these financial statements.

During the year ended 31 December 2018, in the normal course of business the Company transacted with WEHL whereby the Company made payments on behalf of WEHL, via intercompany funding arrangements, totalling $0.10 million (year ended 31 December 2017: made payments on behalf of its immediate parent companies, via intercompany funding arrangements, totalling $0.29 million and received funds from its immediate parent companies totalling $0.23 million). There was a balance outstanding owing from WEHL as at 31 December 2018 of $0.05 million (as at 31 December 2017: balance owing to WEHL of $0.05 million).

During the year ended 31 December 2017, the Company made payments totalling $0.11 million to Paul Warwick Limited, a company for which Paul Warwick, CEO and a Director, is a Director. These payments were made in the normal course of business prior to Mr. Warwick becoming a Director of the Company.

There was no balance outstanding as at 31 December 2017. No such payments were made during the year ended 31 December 2018.