

Petrogas E&P UK Limited

Directors' Report and Financial Statements

Year Ended

31 December 2021

Company Number 05152884

Petrogas E&P UK Limited

Company Information

Directors	U M A Al Barwani T N Chapman P N Dancer K Sen
Registered number	05152884
Registered office	1 Bartholomew Lane London United Kingdom EC2N 2AX
Independent auditor	BDO LLP Statutory Auditor 55 Baker Street London W1U 7EU
Bankers	ING Wholesale Banking 8-10 Moorgate London EC2R 6DA ING Bank N.V Bijlmerdreef 106 1102 CT Amsterdam The Netherlands

Petrogas E&P UK Limited

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Petrogas E&P UK Limited

Directors' Report For the Year Ended 31 December 2021

The Directors present their report together with the audited financial statements for the year ended 31 December 2021.

Principal activity

The principal activity of the Company during the year continued to be the procurement of exploration and production oil and gas licenses and their operatorship and management on its own behalf and on behalf of its partner oil and gas companies.

Business activities

The Company has operated and non-operated licences in the Danish and German sector of the North Sea.

In 2021, following the COVID 19 outbreak in 2020, the demand for oil and gas increased, this resulted in a recovery of the oil and gas prices to normal levels in the first half of the year. Later in the year the commodity prices increased to even higher levels, which was partially due to European geopolitics and market delivery constraints.

Although the disruption of the supply chain and COVID 19 spreading risk continued over the year, the company was able to progress its plans in Denmark, Germany and the UK through its subsidiary Petrogas North Sea.

Results and dividends

The loss for the year amounted to £1,869,093 (2020: £2,606,252).

The directors recommended the payment of a dividend of £nil (2020: £nil).

Projects

With respect to its projects, the Company continued its activities while carefully considering the business environment, safety and health of its people and the liquidity of the Company. It also focused on safeguarding its financial position and considered in its decision making, the risks of spreading the virus and the disrupted supply chain. Therefore, limited activities took place during 2021 for its own licences, the main expenditures were related to the non-operated Danish activities on licence 12/06 and 4/16. Whereas the operator of the Danish activities focused on developing an export opportunity together with the third-party host.

Due to the recent Climate Change regulations in Germany, the requested extension for our operated German Licence NE-003-0002-01 was not supported by the German Authorities, and therefore on 19th January 2022, after consultation with our partners, the Company withdrew its licence extension request. As a consequence, the Licence expired on 31st December 2021. The prime motivation for not supporting an extension was that the Federal Government does not see exploration activities being compatible with the national climate change agenda.

Further the Company also progressed through its subsidiary, Petrogas North Sea limited, with the preparations for an appraisal well (Birgitta East, 22/19a-8) on the Birgitta Gas Discovery.

Due to COVID 19 the subsidiary re-started with the preparations for the planned Birgitta East appraisal well located in P2025 of the UKCS, in Q2 2021, following on from the postponement of the well in 2020 due to COVID 19. Due to delays in the arrival of the rig, the spud date of the well slipped into 2022.

Anticipating that the well would not be drilled in 2021, the Company applied for an extension to the Phase 1 of the licence (expiry was Dec 31st 2021). This application was accepted by the OGA, who extended Phase 1 of the Licence until 31st December 2022. The rig came on contract on 21st January 2022, and the Birgitta East Appraisal well (22/19a-8) was spudded on 30th January 2022. The well activities are still ongoing and it is anticipated the rig will go off hire during April 2022 after completion of the well activities. Currently the outcome of the appraisal well is being assessed.

Directors' Report (continued)
For the Year Ended 31 December 2021

Going Concern

As mentioned in the going concern section of Note 2.2 (Accounting policies), the Company has no income from its assets and is wholly dependent upon its ultimate parent company for its funding.

Russia and Ukraine

In February 2022 Russia invaded the Ukraine, no direct impacts identified on the business given no trade / licences/ operations / operators in Ukraine. In terms of indirect impact, there are cost inflation pressures that would appear a risk both through drilling supplies, drill rigs and wider corporate cost inflation as the world economy sees inflation build.

Results and financial position

The results for the Company are set out on page 8 and show that shows administration costs decreased by £139,137 and interest expense increased by £847,995.

During the year, £1.6 million was recognised as other income. The amount received was a deferred consideration in respect of the sale of the Q7/Q10 licence back in the year 2014. Further there were no other asset disposals during the year, that may give rise to future income. There are also no other contingent assets recognised in the year.

Loss for the year decreased from £2.6m to £1.9m this year.

Directors

The Directors who served during the year were:

U M A Al Barwani
T N Chapman
P N Dancer
K Sen

Directors' responsibilities statement

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

In preparing 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; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business

Directors' Report (continued)
For the Year Ended 31 December 2021

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' indemnity insurance

During the reporting year the Company provided a Directors' and Officers' insurance policy to those in the office.

Disclosure of information to auditors

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

- so far as the Director is aware, there is no relevant audit information of which the Company's auditors are unaware; and
- the Director has taken all the steps that ought to have been taken as a Director in order to be aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Auditor

The auditor, BDO LLP, will be proposed for reappointment in accordance with section 485 of the Companies Act 2006.

Small companies note

In preparing this report, the Directors have taken advantage of the small companies exemptions provided by section 415A of the Companies Act 2006.

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

U M A Al Barwani

Director

Date:

14/04/2022

Petrogas E&P UK Limited

Independent Auditor's Report to the Members of Petrogas E&P UK Limited

Opinion on the financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2021 and of its result for the year then ended;
- have been prepared in accordance with the United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements of Petrogas E&P UK Limited ("the Company") for the year ended 31 December 2021 which comprise the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Changes in Equity and the notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland (United Kingdom Generally Accepted Accounting Practice).

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

Independence

We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

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

Petrogas E&P UK Limited

Independent Auditor's Report to the Members of Petrogas E&P UK Limited (continued)

Other information

The Directors are responsible for the other information. The other information comprises the information included in the Directors' Report other than the Financial Statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon. Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Other Companies Act 2006 reporting

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

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

In the light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified material misstatements in the Directors' Report.

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

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

Responsibilities of Directors

As explained more fully in the Directors' Responsibilities Statement, 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.

Petrogas E&P UK Limited

Independent Auditor's Report to the Members of Petrogas 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.

Extent to which the audit was capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

- We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our sector experience through discussion with the directors and other management (as required by auditing standards).
- We had regard to laws and regulations in areas that directly affect the financial statements including financial reporting (including related company legislation) and taxation legislation. We considered that extent of compliance with those laws and regulations as part of our procedures on the related financial statement items.
- With the exception of any known or possible non-compliance, and as required by auditing standards, our work in respect of these was limited to enquiry of the directors.
- We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit.
- We addressed the risk of fraud through management override of controls, by testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

Our audit procedures were designed to respond to risks of material misstatement in the financial statements, recognising that the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery, misrepresentations or through collusion. There are inherent limitations in the audit procedures performed and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we are to become aware of it.

A further description of our responsibilities is available on the Financial Reporting Council's website at: <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our Auditor's Report.

Petrogas E&P UK Limited

Independent Auditor's Report to the Members of Petrogas E&P UK Limited (continued)

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.

Michael Simms (Senior Statutory Auditor)
For and on behalf of BDO LLP, Statutory Auditor
London
United Kingdom

Date

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

Petrogas E&P UK Limited

Statement of Comprehensive Income For the Year Ended 31 December 2021

	Note	2021 £	2020 £
General and administrative expenses		(186,800)	(325,937)
Exceptional costs	11	(392,586)	(946,290)
Other operating income - net	4	1,314,056	537,659
Operating profit/(loss)	5	734,670	(734,568)
Interest receivable and similar income	8	152,004	36,088
Interest payable and similar charges	9	(2,755,767)	(1,907,772)
Loss before tax		(1,869,093)	(2,606,252)
Tax on ordinary activities	10	-	-
Loss for the financial year		<u>(1,869,093)</u>	<u>(2,606,252)</u>

There was no other comprehensive income for 2021 (2020 - £Nil).

The notes on pages 12 to 24 form part of these financial statements.

Petrogas E&P UK Limited
Registered number: 05152884

Statement of Financial Position
As at 31 December 2021

	Note	2021 £	2021 £	2020 £	2020 £
Fixed assets					
Intangible assets	12		4,364,083		4,107,765
Financial fixed assets	13		100		100
			<u>4,364,183</u>		<u>4,107,865</u>
Current assets					
Debtors: amounts falling due after more than one year	14	7,418,948		-	
Debtors: amounts falling due within one year	14	7,901,777		7,758,949	
Cash at bank and in hand		1,638,675		44,586	
		<u>16,959,400</u>		<u>7,803,535</u>	
Creditors: amounts falling due within one year	15	(2,598,592)		(2,989,740)	
Net current assets			<u>14,360,808</u>		<u>4,813,795</u>
Total assets less current liabilities			<u>18,724,991</u>		<u>8,921,660</u>
Creditors: amounts falling due after more than one year	16		(31,257,117)		(19,584,693)
Net liabilities			<u>(12,532,126)</u>		<u>(10,663,033)</u>
Capital and reserves					
Called up share capital	17		31,169,700		31,169,700
Accumulated losses			(43,701,826)		(41,832,733)
Total deficit			<u>(12,532,126)</u>		<u>(10,663,033)</u>

Petrogas E&P UK Limited
Registered number: 05152884

The financial statements have been prepared in accordance with the provisions applicable to companies subject to the small companies regime and in accordance with the provisions of FRS 102 Section 1A - small entities.

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

U M T A I Barwani

Director

Date: 14 / 04 / 2022

The notes on pages 12 to 24 form part of these financial statements.

Petrogas E&P UK Limited

Statement of Changes in Equity For the Year Ended 31 December 2021

	Called up share capital	Accumulated losses	Total deficit
	£	£	£
At 1 January 2020	31,169,700	(39,226,481)	(8,056,781)
Comprehensive loss for the year			
Loss for the year	-	(2,606,252)	(2,606,252)
At 1 January 2021	<u>31,169,700</u>	<u>(41,832,733)</u>	<u>(10,663,033)</u>
Comprehensive loss for the year			
Loss for the year	-	(1,869,093)	(1,869,093)
At 31 December 2021	<u>31,169,700</u>	<u>(43,701,826)</u>	<u>(12,532,126)</u>

The notes on pages 12 to 24 form part of these financial statements.

Petrogas E&P UK Limited

Notes to the Financial Statements For the Year Ended 31 December 2021

1. General information

Petrogas E&P UK Limited is a private Company limited by shares and incorporated in England and Wales under the Companies Act 2006. The address of the registered office is given on the Company Information page and the nature of the Company's operations and its principal activity are set out in the Directors' Report on page 1.

2. Accounting policies

2.1 Basis of preparation of financial statements

The financial statements have been prepared under the historical cost convention unless otherwise specified within these accounting policies and in accordance with Section 1A of Financial Reporting Standard 102, the Financial Reporting Standard applicable in the UK and the Republic of Ireland and the Companies Act 2006.

The preparation of financial statements in compliance with Section 1A of FRS 102 requires the use of certain critical accounting estimates. It also requires management to exercise judgement in applying the Company's accounting policies (see note 3).

The Company's exploration and development activities are generally conducted in joint arrangements with other companies. These joint arrangements are wholly risk sharing in nature and therefore will fall within the FRS 102 Section 15. The financial statements therefore reflect the proportion of capital expenditure and operating costs applicable to the Company relative to the Company's interests.

The Company, and the Group headed by it, qualify as small as set out in section 383 of the Companies Act 2006 and the parent and Group are considered eligible for the exception to prepare consolidated accounts.

The Company has taken advantage of the exemption from preparing a Statement of Cash Flows in accordance with section 1A of FRS 102 as it is a small entity.

The presentational and functional currency of these financial statements is GBP. Values are rounded to the nearest pound.

The following principal accounting policies have been applied:

2.2 Going concern

As in previous years, Petrogas E&P UK Limited (the 'Company') has no income from its assets and is wholly dependent upon Petrogas International E&P Cooperatief U.A., for funding its 2022 operations. Petrogas International E&P Cooperatief U.A., is a reputable enterprise having assets through its subsidiaries in the Netherlands and is financially supported by its parent Petrogas E&P LLC.

Based on early-stage projects the Company is involved in, the Company is financed in full by its parent company. Petrogas E&P LLC has undertaken to provide financial support until 30 June 2023.

The balance sheet as at 31 December 2021 has total assets of £21.3 million and net liabilities of £12.5 million. The value of the intangibles at year end is £4.4 million and majority of the net liability position at year end relates to the intercompany funding received during the year from the parent. The Company does not have operating lease commitments and no permanent employees in their payroll, and costs will be incurred if there are any works carried out for the licenses held by the company, so the Company has now fixed costs which provide flexibility of the cash flows.

Petrogas E&P UK Limited

Notes to the Financial Statements For the Year Ended 31 December 2021

2. Accounting policies (continued)

2.2 Going concern (continued)

The directors have, at the time of approving the financial statements, a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Based on their assessment of the current uncertainties towards a situation in which the Covid-19 crisis is behind us, the Company has sufficient working capital for the foreseeable future, based on the support of its parent company. Thus, they continue to adopt the going concern basis of accounting in preparing the financial statements.

Considering this and all other pertinent matters, the Directors have elected to prepare these financial statements on a going concern basis.

2.3 Revenue

The turnover shown in the Statement of Comprehensive Income represents value of work done during the year on the exploration and management of oil and gas licences, exclusive of Value Added Tax.

2.4 Intangible assets

Expenditures for exploration and evaluation of oil and gas properties are reported according to the Full Cost Method. All costs attributable to exploration, drilling and evaluation of such interests are capitalised in full. The expenditures are accumulated separately for each licence right and the capitalisation of exploration and evaluation assets, or alternatively oil and gas properties depend on the development phase that has been reached.

Expenditure incurred prior to the acquisition of a licence is written off to the Statement of Comprehensive Income as it is incurred, as is expenditure on licences that are subsequently relinquished.

2.5 Impairment of intangible assets

Assets that are not subject to depreciation or amortisation are assessed at each balance sheet date to determine whether there is any indication that the assets are impaired. Where there is any indication that an asset may be impaired, the carrying value of the asset (or cash-generating unit to which the asset has been allocated) is tested for impairment. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the asset's (of CGU'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 (CGU's). Non-financial assets that have been previously impaired are reviewed at each balance sheet date to assess whether there is any indication that the impairment losses recognised in prior periods may no longer exist or may have decreased.

2.6 Investments in subsidiaries

Investments in subsidiaries are measured at cost less accumulated impairment

2.7 Debtors

Short-term debtors are measured at transaction price, less any impairment. Loans receivable are measured initially at fair value, net of transaction costs, and are measured subsequently at amortised cost using the effective interest method, less any impairment.

Petrogas E&P UK Limited

Notes to the Financial Statements For the Year Ended 31 December 2021

2. Accounting policies (continued)

2.8 Cash and cash equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are highly liquid investments that mature in no more than three months from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

2.9 Financial instruments

The Company only enters into basic financial instrument transactions that result in the recognition of financial assets and liabilities like trade and other accounts receivable and payable, loans to related parties and investments in non-puttable ordinary shares.

Financial instruments are classified and accounted for, according to the substance of the contractual arrangement, as either financial assets, financial liabilities or equity instruments. An equity instrument is any contract that evidences a residual interest in the assets of the Company after deducting all of its liabilities.

Financial assets that are measured at cost and amortised cost are assessed at the end of each reporting period for objective evidence of impairment. If objective evidence of impairment is found, an impairment loss is recognised in the Statement of Comprehensive Income.

For financial assets measured at cost less impairment, the impairment loss is measured as the difference between an asset's carrying amount and best estimate, which is an approximation of the amount that the Company would receive for the asset if it were to be sold at the balance sheet date.

2.10 Creditors

Short-term creditors are measured at the transaction price. Other financial liabilities, including loans, are measured initially at fair value, net of transaction costs, and are measured subsequently at amortised cost using the effective interest method.

2.11 Finance costs

Finance costs are charged to profit or loss over the term of the debt using the effective interest method so that the amount charged is at a constant rate on the carrying amount. Issue costs are initially recognised as a reduction in the proceeds of the associated capital instrument.

2.12 Interest income

Interest income is recognised in profit or loss using the effective interest method.

2.13 Exceptional items

Exceptional items are transactions that fall within the ordinary activities of the Company but are presented separately due to their size or incidence.

2.14 Other operating income

Other operating income comprises deferred consideration relating to the sale of the Q7/Q10 licence which had been sold in the year 2014. (see note 4). Since this is not considered to be part of the main revenue generating activities, the Company presents this income separately from revenue.

Petrogas E&P UK Limited

Notes to the Financial Statements For the Year Ended 31 December 2021

2. Accounting policies (continued)

2.15 Taxation

The tax expense represents the sum of current tax and deferred tax.

The charge for current tax is based on the results for the year adjusted for items which are non-assessable or disallowed. It is calculated using tax rates that have been enacted or substantively enacted by the reporting date.

Current and deferred tax is recognised in the same component of the Statement of Comprehensive Income, other comprehensive income or equity as the transaction or event that resulted in the tax expense or income.

Deferred tax is the tax expected to be payable or recoverable on timing differences between taxable profits and the total comprehensive income as reported in the financial statements.

Deferred tax liabilities are recognised for all timing differences and deferred tax assets are recognised to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits will be available against which timing differences can be utilised. Such assets and liabilities are not recognised if the timing difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither taxable profit nor the total comprehensive income.

The carrying amounts of deferred tax assets are reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the assets to be recovered.

A change in deferred tax assets and liabilities as a result of a change in the tax rates or laws is recognised in comprehensive income, or other comprehensive income to the extent that it relates to items previously recognised in other comprehensive income.

3. Judgements in applying accounting policies and key sources of estimation uncertainty

In preparing the financial statements, management is required to make estimates and assumptions which affect reported income, expenses, assets and liabilities. Use of available information and application of judgement are inherent in the formation of estimates, together with past experience and expectations of future events that are believed to be reasonable under the circumstances. Actual results in the future could differ from such estimates.

The main estimates and assumptions are shown below:

Estimates and assumptions of oil and gas reserves:

The valuation of oil and gas properties is based on estimates and assumptions concerning oil and gas resources at the time of acquisition and the expected oil and gas that may be subsequently produced annually.

Impairment testing of receivables:

The funds provided to its subsidiaries were impaired to its recoverable amount based on the value of the supporting exploration and evaluation assets owned and investments undertaken by its subsidiaries taking into account the support from group for these subsidiaries.

Impairment testing of exploration and evaluation assets as well as oil and gas properties:

The exploration and evaluation assets were impaired to its recoverable amount which was its fair value less costs to sell, when an indication or trigger of impairment applies.

Petrogas E&P UK Limited

Notes to the Financial Statements For the Year Ended 31 December 2021

4. Other operating income -net

	2021 £	2020 £
Overseas	1,604,275	-
Other operating charges	<u>(290,219)</u>	<u>537,659</u>
	<u>1,314,056</u>	<u>537,659</u>

In respect of the sale of the working interest in the Q7/Q10 licence in 2014 and completion in 2015, a deferred consideration was applicable. During 2021 the pay-out has been confirmed and subsequently paid to the Company.

5. Operating profit/(loss)

The operating profit/(loss) is stated after charging / crediting:

	2021 £	2020 £
Fees payable to the Company's auditor for the audit of the Company's annual accounts	(30,633)	(15,667)
Accounts preparation services	(2,217)	(2,667)
Tax compliance services	(8,163)	(3,333)
Exchange (losses) / gains	<u>(290,219)</u>	<u>537,659</u>

6. Employees

The average monthly number of employees, including Directors, during the year was 4 (2020 - 4).

7. Directors' remuneration

The Directors' remuneration was borne by the parent company. The Directors do not consider there to be any members of key management other than the Directors themselves.

8. Interest receivable and similar income

	2021 £	2020 £
Interest receivable from group companies	<u>152,004</u>	<u>36,088</u>

9. Interest payable and similar charges

	2021 £	2020 £
Interest payable on parent company loan	<u>2,755,767</u>	<u>1,907,772</u>

Petrogas E&P UK Limited

Notes to the Financial Statements For the Year Ended 31 December 2021

10. Taxation

	2021 £	2020 £
Total current tax	<u>-</u>	<u>-</u>

Factors affecting tax charge for the year

The tax assessed for the year is lower than (2020 - lower than) the standard rate of corporation tax in the UK of 19% (2020 - 19%). The differences are explained below:

	2021 £	2020 £
Loss on ordinary activities before tax	<u>(1,869,093)</u>	<u>(2,606,252)</u>
Loss on ordinary activities multiplied by standard rate of corporation tax in the UK of 19% (2020 - 19%)	(355,128)	(495,188)
Effects of:		
Capital allowances for year in excess of depreciation	(50,241)	(278,091)
Unrelieved tax losses carried forward	405,369	773,279
Total tax charge for the year	<u>-</u>	<u>-</u>

Factors that may affect future tax charges

The March 2021 budget announced a further increase to the main rate of corporation tax to 25% from 1 April 2023. This has not been substantively enacted at the balance sheet date. The rate has however been maintained at 19% rather than increasing it to 25%. The charge to Corporation Tax and the main rate will be set at 19% for the financial year beginning 1 April 2021.

At 31 December 2021 the Company has tax losses amounting to £90 million (2020 - £88 million) available to offset against future trading profits. A deferred tax asset has not been recognized in respect of these losses as the conditions for recognition have not been realised.

The tax regime which applies to exploration for, and production of, oil and gas in the UK and on the UK Continental Shelf (UKCS) currently comprises of a ring fence corporation tax of 30% and Supplementary charge in respect of ring fence trades of 10%. The main consequence of the ring-fence is that non-ringfence losses may not be offset against the profits from a ring-fence trade. However, losses from a ring-fence trade can be offset against non-ringfence profits.

Petrogas E&P UK Limited

Notes to the Financial Statements For the Year Ended 31 December 2021

11. Exceptional costs/(income)

	2021 £	2020 £
Impairment of intangible assets (note 12)	392,586	946,290
Discontinued operations relating to Petrogas NEO UK Limited	-	(18,759,543)
Payable forgiveness Petrogas International E&P Cooperatief U.A.	-	18,759,543
	<u>392,586</u>	<u>946,290</u>

The Company and its partners requested the authorities in Germany to extend the NE3-0002-01 license to have more time to explore the area. However, the authorities rejected the extension request largely in relation to the changes in the legislation on Climate Change, based on which the Company and its partners decided to withdraw the extension in Q1 2022. Therefore, the capitalized costs incurred for the work activities on this licence were fully impaired during the year. The impairment of intangible assets amounting to £392,586 were mainly related to German license.

On 19 May 2020, Petrogas formally exited and ceased to be party in the acquisition of a portfolio of upstream assets in the UK North Sea from Total UK by signing a deed of settlement and release. This was a result of the COVID 19 Pandemic, which changed the conditions significantly and influenced the strategic value of the transaction for Petrogas. The 2020 forgiveness of the funds or discharge of costs given by the Company towards the divested company, as part of the exit, is offsetting with the forgiveness of the funds or discharge of the corresponding funds and costs with Petrogas International E&P Cooperatief U.A., so has no net impact on the result or equity of the Company

Petrogas E&P UK Limited

Notes to the Financial Statements For the Year Ended 31 December 2021

12. Intangible assets

	Exploration and appraisal costs £
Cost	
At 1 January 2021	32,795,262
Additions	648,904
Disposals	(695,070)
At 31 December 2021	<u>32,749,096</u>
Amortisation	
At 1 January 2021	28,687,497
On disposals	(695,070)
Impairment charge	392,586
At 31 December 2021	<u>28,385,013</u>
Net book value	
At 31 December 2021	<u>4,364,083</u>
At 31 December 2020	<u>4,107,765</u>

The additions were mainly related to the 2021 expenditures on the non-operated Danish activities on licence 12/06 and 4/16 and smaller expenditure on the operated German licence.

During 2021 the sale of our Schagen licence in the Netherlands has been completed and therefore disposed.

The impairment charge is further disclosed under exceptional items. Management carried out an impairment (trigger) assessment for the carrying amounts of the intangible assets of the respective licences as at 31 December 2021. Management has assessed that these remaining intangible assets were not impaired based on the business plans for 2022 onwards.

Petrogas E&P UK Limited

Notes to the Financial Statements For the Year Ended 31 December 2021

13. Financial fixed assets

	Investments in subsidiary companies £
Cost and net book value	
At 1 January 2021 and at 31 December 2021	<u>100</u>

No changes compared with prior year.

Subsidiary undertaking

The following was a subsidiary undertaking of the Company:

Name	Registered office	Principal activity	Class of shares	Holding
Petrogas North Sea Limited	England and Wales	Procurement and management of exploration and production oil and gas licences	Ordinary	100%

The aggregate of the share capital and reserves as at 31 December 2021 and the profit or loss for the year ended on that date for the subsidiary undertaking were as follows:

Name	Aggregate of share capital and reserves £	Loss for the year £
Petrogas North Sea Limited	(13,182,471)	(567,850)

The registered office address of the above subsidiary is the same as Petrogas E&P UK Limited at 1 Bartholomew Lane, London, EC2N 2AX.

Petrogas E&P UK Limited

Notes to the Financial Statements For the Year Ended 31 December 2021

14. Debtors

	2021 £	2020 £
Due after more than one year		
Amounts owed by group undertakings	<u>7,418,948</u>	-

The amounts owed by group undertakings, due after more than one year, represent an unsecured loan which bears interest at 11.46%. It is anticipated that the repayment will take place by 31 December 2023. Interest was charged on the Statement of Comprehensive Income for the relevant period (Note 8).

	2021 £	2020 £
Due within one year		
Amounts owed by group undertakings	7,900,427	7,541,327
Amounts owed by joint ventures and associated undertakings	-	213
Other debtors	1,350	217,409
	<u>7,901,777</u>	<u>7,758,949</u>

The amount owed by group undertakings is net of a provision of £11,978,331 (2020 - £11,978,331).

The amounts owed by group undertakings are due on demand and no interest is charged on these balances.

15. Creditors: amounts falling due within one year

	2021 £	2020 £
Trade creditors	1,118	-
Amounts owed to group undertakings	360,822	273,383
Accruals and deferred income	2,236,543	2,580,750
Amounts owed to joint ventures	109	135,607
	<u>2,598,592</u>	<u>2,989,740</u>

The amounts owed to group undertakings are due on demand and no interest is charged on these balances.

Petrogas E&P UK Limited

Notes to the Financial Statements For the Year Ended 31 December 2021

16. Creditors: amounts falling due after more than one year

	2021	2020
	£	£
Amounts owed to group undertakings	<u>31,257,117</u>	<u>19,584,693</u>

The amounts owed to group undertakings, due after more than one year, represent an unsecured loan of £31,257,117 (2020 - £19,584,693), which bears interest at 11.46% (2020 - 11.46%). It is anticipated that the repayment will take place by 31 December 2023. A yearly interest was charged on the Statement of Comprehensive Income (Note 9).

17. Share capital

	2021	2020
	£	£
Allotted, called up and fully paid		
31,169,700- ordinary shares of £1 each	<u>31,169,700</u>	<u>31,169,700</u>

18. Related party transactions

The Company has taken the FRS 102 Section 1A disclosure exemption of related party transactions with other group companies as the Company is a wholly-owned subsidiary of Petrogas E&P LLC.

19. Controlling party

At 31 December 2021, the Company's immediate parent Company was Petrogas UK Holding BV and was a member of the Petrogas E&P LLC Group, with as ultimate controlling party MB Holding Company (Muscat/Oman). A copy of the Petrogas E&P LLC Group financials may be obtained from Petrogas E&P LLC at Way number 6862, Building number 1742-18 Nov Street, Azaiba, P.O. Box: 353, PC112 Ruwi, on request through their website, www.petrogasep.com.

20. Post balance sheet events

There were no post balance sheet events except for as disclosed in Directors' report that have a significant impact on the financial statements of 2021.

Petrogas E&P UK Limited

Notes to the Financial Statements For the Year Ended 31 December 2021

21. Contingent asset

In the year 2020 there was a contingent asset in respect of the sale of the working interest in the Q7/Q10 licence in 2014 and completion in 2015, the deferred consideration was expected to be payable when the licence reached its point of break even. No income was recognised during the year 2020, as the receipt of this additional consideration was expected but its discounted value was not virtually certain: the uncertainties was mainly relating to the timing as the point of breakeven of the project, being dependent on several factors, in particular production volume, new investments and commodity price, of which the gas price was significantly depressed during 2020. Being a third party Petrogas did not have control or have information to project an appropriate estimate.

During the year 2021, £1.6 million was recognised as other income in respect of the above contingent asset. There were no other asset disposals during the year, that may give rise to future income. There are no other contingent assets recognised in the year 2021.